PREM 19/1397

(renewed file cover) Part 3 MT

Confidential Filing

Non-Tariff Barriers & restraint on Imports
Britains International Trade Policies
Consideration of Export Problems.
Recycling the OPEC Surpluses.

TRADE

Pt 1 : April '80
Pt 3 : Nov. 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~8.11.82~~							
31.5.84							
Pt 3 ends							

PREM 19/1397

PART 3 ends:-

AJC to FCO 31.5.84

~~N. Owen to A. Turnbull 18.5.84~~

PART 4 begins:-

AT to DTI 1.6.84

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
ES (84) 1st Meeting	03/04/2013
ES (84) 2	28/02/1984
E (S) (84) 1	10/02/1984
EQS (83) 27	16/02/1983
CC (83) 6th Item 3	24/02/1983
CC (83) 2nd Item 3	27/01/1983
E (82) 24th Meeting	16/12/1982
E (82) 79	13/12/1982
E (82) 78	13/12/1982
E (82) 77	13/12/1982
CC (82) 51 Item 3	02/12/1982
CC (82) 50 Item 3	25/11/1982
EQS (82) 38	17/11/1982
EQS (82) 36	15/11/1982
EQS (82) 35	15/11/1982
EQS (82) 34	15/11/1982

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed _____ Date 03/10/2013

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 29 November 1982, column 22 to 24: GATT (Ministerial Meeting)

Signed _____ Date 03/04/2013

PREM Records Team

15/6 RM
FILE 12/6
8/6

Sir Richard Beaumont

Reminded FCO today 11/6: they are awaiting DTI comment so reminded DTI - replying back 12/6.
Chased DTI - coming today or tomorrow 13, 14/6

10 DOWNING STREET

From the Private Secretary

31 May, 1984

ARAB-BRITISH CHAMBER OF COMMERCE

I enclose a copy of a letter which the Prime Minister has received from Sir Richard Beaumont asking whether Mrs. Thatcher would be the principal guest at the official opening of the new premises of the Arab-British Chamber of Commerce in October.

I should be grateful for your early advice.

I am sending a copy of this letter and its enclosure to Callum McCarthy (Department of Trade and Industry).

A. J. COLES

P. Ricketts, Esq.,
Foreign and Commonwealth Office.

غرفة التجارة العربية البريطانية
Arab-British Chamber of Commerce

AJC
Tabling pl.
CR.

R3115

THE CHAIRMAN'S OFFICE

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REGISTERED IN LONDON No.1199402

The Rt Hon Mrs Magaret Thatcher MP
10 Downing Street
London SW1

30 May 1984

Dear Prime Minister,

The Arab-British Chamber of Commerce, of which I am Chairman, is shortly to move to new premises at No 6, Belgrave Square, SW1, of which the Chamber acquired the lease about 18 months ago and which it has subsequently refurbished.

The Secretary-General and Chief Executive of the Chamber and I and the Members of the Board of Directors would be greatly honoured if you would consent to attend, as principal guest, the official opening of the Arab-British Chamber of Commerce at No 6, Belgrave Square. The Board would like the opening ceremony to take place in October but would be glad to leave the precise date to your choice.

You are, as your visits to Arab countries have demonstrated, aware of the value to the United Kingdom of its commercial links with the Arab World. The Chamber plays a significant part in these links. It has a bi-lateral character both promoting British exports to and commercial interests in the Arab World and Arab exports to and commercial interests in Britain. Its Board of Directors, as you will see from the enclosed list is composed half of British and half of Arab Members.

I have had an opportunity to mention informally to Mr Norman Tebbitt, Secretary of State for Industry and Trade, our intention to ask you to honour our opening ceremony and I am similiarly informing the Foreign and Commonwealth Office.

It is the earnest hope of the Board of Directors that you will be able to accept our invitation and to appoint a date. As I envisage it, the ceremony could take place either in the morning or in the afternoon and would consist of a few short speeches and a visit to the premises. I would be glad to furnish your Private Secretary with any further information which you might require.

I enclose a copy of the latest Annual Report of the Chamber.

Yours sincerely

Richard Beaumont

Sir Richard Beaumont
Chairman

Enc

غرفة التجارة العربية البريطانية
Arab-British Chamber of Commerce

OFFICERS AND DIRECTORS OF THE ARAB-BRITISH CHAMBER OF COMMERCE

CHAIRMAN

Sir Richard Beaumont KCMG (British)

FIRST VICE-CHAIRMAN

Mr Abdul Aziz al-Sagr (Kuwait) President of the Kuwait Chamber of Commerce

SECOND VICE-CHAIRMAN

The Viscount Slim OBE (British) Director of Jackson Exploration Inc

THIRD VICE-CHAIRMAN

Mr Tariq al-Safi (Iraqi) Vice-President of the Iraqi Federation of Industry

SECRETARY-GENERAL

Mr Abdul Karim al-Mudaris (Iraqi)

NONORARY TREASURER

Mr P E H Alexander (British) formerly of the British bank of the Middle East

COUNSELLORS

Dr Burhan al-Dajani (Jordanian) Secretary-General of the Union of Arab Chambers of Commerce, Industry and Agriculture

Sheikh Mahmoud Nashar (Saudi) Member of the Jeddah Chamber of Commerce

Mr P J E Elton MC (British) Consultant to Hill Samuel Merchant Bankers.

Mr J B Rearden (British) Sales Marketing Director of Land Rover Ltd

Mr H Ridehalgh CBE (British) Former Senior Partner, Sir William Halcrow and Partners

Mr Sabih M Shukri (Iraqi) Chairman of Who's Who in the Arab World and Banking

Mr E C Smalley CBE (British) Managing Director of Platt-Saco Lowell

DIRECTORS

Mr Fath al-Rahman al-Bahshir (Sudanese) President of Sudanese Businessmen's Federation

Sheikh Ahmed Bin Ameir al-Hanai (Omani) President of Oman Chamber of Commerce

Mr J al-Naboudah (UAE) President of the Dubai Chamber of Commerce

Sheikh Ahmed Mohamed al-Sowaidi (Qatar) President of the Qatar Chamber of Commerce

Mr Hamdi al-Tabba'a (Jordanian) President of the Federation of Jordanian Chambers of Commerce

Dr Sadiq Busneina (Libyan) Representative of the Libyan Chambers of Commerce

Mr Badreddine Challah (Syrian) President of the Federation of Syrian Chambers of Commerce

Mr J H Christie OBE (British) Co-owner and Editor of Middle East Newsletter

M R J Daniels OBE (Australian) Director of Incotes Ltd

Mr Wael al-Migdadi (Iraqi) Managing Director of Sharjah Investment Corporation

Mr Ali Fayed (Egyptian) Chairman of General Navigation and Commerce Co Ltd

Mr P G Higgins (British) Director of Overseas Operations at the General Electric Co Ltd

Mr Adnan Kassar (Lebanese) President of the Beirut Chamber of Commerce

Dr Abdul Hassan Zalzala (Iraqi) Deputy Secretary-General (Economic) League of Arab States

Mr J K M Laing (British) Director John Laing PLC

Mr P I Marshall (British) Deputy Chairman of Plessey

Mr F F Steele (British) Consultant to Kleinwort Benson Ltd, Banker

Mr K Bowden (British) Director of Wimpey International

Admiral Sir Rae McKaig KCB CBE Chairman of Gray Mackenzie Ltd

Mr Adel al-Dajani (Jordanian) London Manager of the Arab Bank

Sir David Roberts (British) Director-General of the Middle East Association

Confidential

10 DOWNING STREET

Mr Turnbull

Export Policy

Your purposes only, I enclose a copy of a DTI draft on this subject, and comments on it from me. Mr Tebbit's office has asked officials to respond to these, I hope, in the interests of keeping up what is a fairly bland effort.

Michael Scholar

18 May.

PERSONAL

DRAFT PAPER

EXPORT POLICY

At our meeting on 16 December, I was charged with the preparation of a paper

> "On the way export promotion is currently working, on how it might be made more effective, how the export promotion effort might be better targetted on countries able to pay, and on whether support should be re-directed to different sectors of industry and services".

2 Since then, I have set in hand work within the Department to examine the thrust of our export policy in the light of this remit; there are also a number of other activities - such as the Matthews Report on the future of the ECGD - which have important implications for this exercise. The purpose of this note is to set out the outline of our present policy; and to propose how, where appropriate, it might be modified. I also report progress on some of the action in train to remedy deficiencies in our present policy and practice, some of which concern Departments other than my own.

Export Promotion at Present

3 At present, the main engines of export promotion are the British Overseas Trade Board

(BOTB); the Aid and Trade Provision (ATP); and the Export Credit Guarantee Department (ECGD). Since 1972, the BOTB has directed official services to exporters of both manufacturers and "invisibles", maintaining regular contact and consultation with DTI Ministers. It costs around £70m a year to provide its services (£46m of which are staff costs in the FCO and DTI; many services are charged for). Our philosophy is that the bulk of export promotion activity should be demand-led, in response to industry's requests; clearly, these are focussed on markets which can be expected to pay. But as far as limited resources allow, the Board also directs initiative work in markets thought by its 16 Area Advisory Groups to have good prospects both for volume and value of sales and for prospects of obtaining payment. Resources are concentrated on markets and sectors where we are likely to achieve the greatest increase in exports, not necessarily where big export volumes already exist. About half of BOTB resources are devoted to the 24 OECD countries, the recipients of over 70% of UK exports.

4 The ATP is designed to counter subsidies given by other countries towards exports, particularly major projects; it is co-ordinated by one Division in this Department and expenditure runs at about £65m a year. Project business is important to our companies (particularly the larger ones); it is relatively economical and effective, subject to the reservations in paras ~~below.~~ below.

5 ATP is always offered with export credits,

and is thus only available for those countries where ECGD offers long-term cover. ECGD has run into difficulties recently, mainly as a result of widespread world indebtedness. This is despite the considerable effort that ECGD puts in to the assessment of creditworthiness of overseas markets in consultation with its Advisory Council for the "commercial" account, or with the inter-Departmental Export Guarantees Committee for "national interest" cover; its record in assessing sovereign risk is very good. Even though much exporting to our most solvent markets takes place without the intervention of ECGD at all, 54% of their cover in 1982 was provided for exports to developed countries, and 66% for consumer goods.

How export promotion might be made more effective

6 I do not believe that, given current public expenditure constraints, there is any case for making our export promotion more effective by increasing the real resources devoted to it. What we are really talking about, therefore, is how the export promotion effort might be better targetted, and whether the balance between different sectors of industry and services is about right: the last points in my remit from our December meeting.

7 An objective, statistical approach to targetting our export effort might seem attractive. My Department monitors performance at product level, and has looked at the level of UK exports to markets with the highest per capita incomes. Instructive as such analysis is, it

tends to explain past events rather than providing leads for the future, and it would be a mistake to exaggerate its value.

8 There are two main options for varying the allocation of resources: we could devote more effort to promoting opportunities, and less to providing services in response to exporters' requirements, or we could allocate resources for services by markets or sectors. In their initiative work, the BOTB are consciously selective; for instance, on their advice the Department has recently mounted "task force" exercises in both North and Latin America, as well as undertaking an annual cycle of market assessments for some 75 sectors. I am satisfied that this method of targetting our efforts, which relies heavily on exporters' demands and expert commercial advice, is much more effective than any more interventionist, "Whitehall knows best" scheme could be.

9 This is not to say that officials have nothing to contribute. The merger of the former Departments of Trade and Industry has provided a further opportunity to streamline export promotion effort; my Ministers and I are ensuring that the industry sponsor Divisions play their full role in export promotion - a role hitherto conducted by ex-Department of Trade "country desks". Paul Channon is seeking the co-operation of colleagues in other industry sponsor Departments (eg MoD, Energy, Transport, DHSS) to integrate our efforts further, and to impress upon colleagues the

importance of effective co-ordination. Departmental sponosrs can play a particularly useful role in making smaller companies better aware of the services available.

10 I am, however, concerned that the services sector does not make as extensive use of DTI export promotion resources as manufacturing. There are structural reasons for this, in the Department and in the services sector itself. I have commissioned a study, with the co-operation of the British Invisible Exports Council, which will be reporting to me around the end of this month. I do not anticipate any need for dramatic changes, but I expect some improvements to be recommended in internal arrangements and external communication, which I shall implement.

11 We are agreed that it is desirable to direct our efforts towards countries that are able to pay. It is important to note that, as a rule, the export of consumer goods paid for in cash by developed solvent countries takes care of itself: Government involvement - except in dealings with state trading countries - tends to be almost superfluous. Nonetheless, I am concerned that - at its baldest - ECGD frequently find themselves providing cover in order to chase large projects in dubious markets where the prospects of payment are poor. Their exposure in the less desirable markets is already at a level which their Secretary regards as critical. Because of this, cover is necessarily being directed at more

solvent markets already - unless, of course, we dictate otherwise for political reasons.

12 As you know, the Matthews Report on ECGD was published last month. It would be mistaken to pre-empt the consultations on the Report currently underway, but there are aspects of the Metthews recommendations which point to ways in which ECGD's operations might be made more flexible and responsive to exporters' needs. Clearly, we should welcome any such proposals provided they are consistent with ECGD's commitments (some of which are statutory) to prudent practice and sound management. However, I should warn that I do not find the main recommendation that ECGD should be hived off attractive. Without revising ECGD's basic objectives - which I do not favour, since this would imply some relaxation of our requirement that it should cover its costs - I do not believe there is scope for substantial reorientation of our export promotion effort as carried out by ECGD.

13 On the ATP, one of the criticisms made (and touched upon at our December meeting) is that it often assists industry sectors where goods are already in surplus: the classic case is the sale of steel plants to newly industrialising countries. We should obviously examine case by case the balance of interest as between exporters and domestic producers concerning the export on favourable terms of plant in order to produce goods in surplus. However, for as long as ATP is confined to use as an instrument to protect us

from unfair competition from other countries' subsidised exports, we cannot have complete control over the sectoral balance of this particular component of our export promotion effort. We cannot abandon ATP, even in present conditions where - pace those who feel the criticisms of the Byatt Report are still valid - the extent of export subsidy is declining because of lower interest rates. We cannot and should not disarm unilaterally: it would damage many of our producers, and would free only very limited resources for other export promotion activities. We can, and do, however, make efforts in OECD (for example at last week's Ministerial), the GATT and in bilateral contacts with our developed competitors towards multilateral lowering of these subsidies.

14 However, the extent to which the allocation of ATP is the subject of inter-Ministerial consultation (and conflict) is a matter of great concern to me: it impedes the effective use of this instrument, as well as wasting a great deal of senior colleagues' time. Paul Channon is in discussion with colleagues in the Treasury and ODA on a number of facets of ATP, with a view to streamlining its administration. We plan to seek colleagues' agreement to changes in E(A). I believe that when this consideration is complete, it will be much easier for my Department to see whether individual cases are being determined with sufficient selectivity as regards industry sectors; they are already determined selectively as regards markets. It would be in all our

interests if less time were wasted on argument about which cases should be pursued, and which should not be supported.

Summary

15 There are, as I have made clear, a number of leads to be followed up which should streamline our export promotion policy and ensure that what targetting work is undertaken by Government is effectively directed. But I wuld mislead colleagues if I said there was much that I thought ought to be done: common sense, as well as our wider philosophy, suggests that our promotion should be far more responsive than dirigiste.

JH1ABZ

Chron. file
by NO
(Comments on
DTI Paper)

16 May 1984

EXPORT POLICY

General

The draft is helpful in that it suggests a number of questions. Could it develop some of these further in the interests of a fuller discussion? It could usefully begin by referring to job generation, since the Seminar will discuss other means of generating jobs. The question might be asked: which aspects of export-promotion achieve this, and roughly at what cost per job?

The two other general points, linked to this point, are philosophy, and balance.

On the question of philosophy, it is consistent with the Government's economic approach that export services should be provided by Government where it is better placed eg by virtue of its overseas posts to provide advice than private sector agencies; and that these services should be charged for. The philosophy underlying the initiative work is less clear: why is the Government involved in this work at all, and how successful has the BOTB been in identifying market prospects?

On balance, there are on the one hand many large, experienced exporters who do not need export support at all, other than introductions; and on the other, small firms who find the services and support essential. Would support be more cost-effective if it focussed more on the latter?

Detailed Points

Paragraph 3

I presume that £70 million a year is the net cost, after charging for services? How substantial is the revenue from these charges? Could they not be increased? Wouldn't the charging principle give the best guide to the kinds of services which the market wants?

Paragraph 4

This paragraph is not as illuminating as it might be. If the ATP is designed to counter subsidies by other countries, should we not be aiming for a consensus on subsidy disarmament in respect to ATP, as we have done in respect to interest support?

DASAAV

Paragraph 6

The note questions whether export promotion could be made more effective by increasing the real resources devoted to it. Should the paper not also raise the question whether fewer resources should be made available, but deployed more effectively? As regards the balance between different sectors, could the paper say what the balance is?

Paragraph 7

The monitoring analysis is given a short shrift here: what kinds of results does it come up with, and what are their value? For example, are we concentrating on economies likely to continue to grow?

Paragraph 8

Is it possible to say anything about the success or otherwise of the "task force" exercises mentioned, or of any others?

Paragraph 9

The weakness of small companies in export marketing might be discussed more fully. It is sometimes suggested that the larger companies need very little help at all from Government. To what extent do smaller companies use the services provided?

Paragraph 10

What is the extent of the use of DTI export promotion resources by the services sector? How does this compare with their share of exports?

Paragraph 11

The observation here about ECGD's pursuit of large projects in dubious markets sits a little oddly alongside paragraph 5, which tells us that ECGD has run into difficulties "mainly as a result of widespread world indebtedness.... despite the considerable effort that ECGD puts into the assessment of credit worthiness". Is the implication here that ECGD is pushed into markets it doesn't like, by industrial and diplomatic pressures? If so, should this not be exposed more clearly?

Paragraph 12

Has anyone considered how the orientation of ECGD's export promotion effort might look if indeed it were not encouraged to depart from to "prudent practice and sound management"?

DASAAV

Paragraph 13

The point about multilateral reductions in subsidies is well made. The advantage claimed for unilateral disarmament is not so much that it would free resources for other export promotion activities, but that it would free these resources for other uses in general eg by lower taxation or Government borrowing. This paragraph might acknowledge the force of the Byatt Report arguments, namely that interest subsidies are an expensive form of job support, which favours a narrow slice of our export activities, at the expense, ultimately, of other industries.

Paragraph 14

This paragraph is mainly about administration. What in principle has been agreed about ATP to remove the conflicts which surround it?

Paragraph 15

Should this summary not explain why targeting work is conducted at all by Government, however well advised by its industrial advisers?

DASAAV

Qz.03656

MR TURNBULL

ES AT 12.00 ON TUESDAY 3 APRIL: TRADE POLICY

I submitted for the Prime Minister a brief on Trade Policy (ES(84) 1 and ES(84) 2) under cover of my minute of 7 March, when this subject was due to be discussed by ES on 8 March. I understand that you are content with the same brief for the rescheduled meeting of ES now taking place on 3 April.

2. The only additional point I would make is that the line on rollback proposed by the Secretary of State for Trade and Industry in his two papers for ES is reflected in the draft "thematic paper" for the London Economic Summit which was approved at the Prime Minister's meeting with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer on 23 March, and which Sir Robert Armstrong has circulated to the Personal Representatives for their next meeting on 6-8 April. In that paper, the "immediate measures" proposed for possible agreement at the Summit include (paragraphs 7.5 and 7.6):

" - [to note with approval the decision taken at the meeting of OECD Ministers on 18 May 1984 concerning the initial phase of the OECD and Williamsburg commitments and the OECD Secretary-General's initiative], and to urge all trading countries to resist continuing protectionist pressures and to seek opportunities to reduce barriers to trade;

/ - to

- to invite Trade Ministers to promote at the GATT Contracting Parties' meeting in November 1984 a successful outcome of the work programme laid down at the GATT Ministerial meeting in November 1982; and to broaden consultations with Contracting Parties and with the Director-General with a view to working towards a high level meeting of GATT before the end of 1985 to consider launching a new round of multilateral trade negotiations, on the basis of clearly defined objectives and guidelines, early in the second half of the decade."

3. I am sending a copy of this minute to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

2 April 1984

10 DOWNING STREET

Prime Minister

For E(S) tomorrow you may like to look at paras 1-3 of Mr Tebbit's report on his visit to the US.

He may raise the suggestion at the bottom of page 1 of your sending a letter to President Reagan sometime later in the year.

AT
7/3

7 March 1984

PRIME MINISTER

TRADE POLICY

Norman Tebbit's paper of 28 February contains some sound conclusions.

1. We should continue to work for the open trading system.

2. We should not disarm unilaterally.

3. We should continue to press for liberalisation of the internal EEC market for both goods and services.

4. Prime British objectives are to liberalise services and reduce NICs' trade barriers.

However, it would be a mistake to drag our heels concerning a new GATT round. Conclusion 14(e) and 14(g) could be strengthened.

A new round of GATT should be sought positively

Negotiations for freer trade are an opportunity rather than a threat. We need to break out of the siege mentality which has gripped Europe since 1974: too depressed to feel able to liberalise, but needing to liberalise to grow; blocking structural change and trade by interventionist industrial and agricultural policies, which have sown the seeds of the trade war with the USA (first steel, then gluten feed). It is absurd that just as the world economy is recovering, we risk retreating into the stifling restrictions of the 1930s. We need a climate like that of pre-1973, in which world trade grew annually by 8 per cent, and world production by 5 per cent. OECD growth rates are now only half as great, and will not significantly reduce unemployment.

Our position as host of the 1984 Summit

As Summit host and a country traditionally committed to free trade, we could become the natural leader rather than just a supporter of other's initiatives. The aims set out on page 3 of the officials' paper are good ones, and should be pursued vigorously.

There will be two main obstacles to progress. Although tariffs are now low and much trade is unrestricted, other policies like

industrial intervention and subsidy, the CAP, Japan's macro-policy and some NICs' artificially high exchange rates are strongly protectionist. There is a danger that these will not be on the agenda of trade negotiations. They ought to be discussed at the Summit and seen as part of the general restrictions on trade. The second is that trade policy is pursued mainly on behalf of producers rather than consumers. The consumers' views ought to be thought out more carefully. We review below some of the specific problems.

Subsidies. We do not have enough resources to win a subsidy war, as the DTI point out. Subsidising inefficient domestic producers prevents tax reductions and strengthens the dependent relationship of parts of industry on Government. It has never succeeded in avoiding the eventual loss of jobs that follows from structural change. The UK should lead in arguing for a reduction in subsidy, and should pursue this policy at home on a unilateral basis. There are cheaper ways of protecting industries than subsidising them.

VRAs. The GATT round will produce pressure to negotiate on these. They can be useful and flexible instruments. They are not, however, without costs. In the case of cars, even on DTI figures car-buyers would save £700 million a year and £400 million of improvement to the balance of payments would come from abolishing VRAs and moving to a competitive price level. In video recorders, the Consumer Association argued that the 1983 agreement with Japan raised prices by £100 a set, or more than 25 per cent.

The encouragement of inward investment in assembly is not an attractive argument for an advanced country with thousands of options. The cost per job created is often very great. The premiums we pay every year on our Japanese cars is as much again as the total grants Nissan may expect to get.

VRAs are expensive because they invite foreigners to charge the highest price for their limited quota. In 1979, UK clothing quotas at their peak were selling for premiums of 160 per cent in Hong Kong. If we made respectable citizens of the VRAs by turning them into tariffs, the Government rather than foreign suppliers would lay hold of this surplus revenue.

The impact and incidental effects of VRAs are also bizarre. Restraints on NICs' exports make it more difficult for them to repay their debts to us and others. Restraints on Brazilian footwear allow the Italians a clear run. Restraints on Philippine garments benefit American clothing manufacturers.

The relative and absolute costs of protection. All protection imposes additional costs and makes the growth of international trade that much more difficult. Subsidy is a particularly expensive and damaging way of protecting declining industries. VRAs and other quotas are often more expensive than imposing tariffs, where at least the Government enjoys the revenue rather than some middle man or foreign market place.

It is in our interests to negotiate as many of these constraints away as possible on a multilateral basis, and this should be the aim of the London Summit. There needs to be a wide-ranging comparative study of all the different types of protection as a basis for negotiations and informed discussion. We do not think the DTI one will go far enough, but it is a good start: we need to do it for all protected industries.

NICHOLAS OWEN

JOHN REDWOOD

Qz.03619

MR TURNBULL

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY, 11am, 8 MARCH

FLAG A
FLAG B

I attach a brief for the Prime Minister on Trade Policy (ES(84) 1 and ES(84) 2).

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

7 March 1984

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY, 8 MARCH

TRADE POLICY

(ES(84) 1 and ES(84) 2)

Chairman's Brief for the Prime Minister

PURPOSE

To consider future United Kingdom international trade policy and, in particular, the line to take at the forthcoming OECD Ministerial Meeting and the Economic Summit.

BACKGROUND

2. The Williamsburg Economic Summit's Final Declaration contained a commitment "to halt protectionism, and as recovery proceeds to reverse it by dismantling trade barriers" (ie "rollback"). The Declaration also recorded the participants' "agreement to continue consultations on proposals for a new negotiating round in the GATT". The Japanese - with American support - followed this up in November by proposing "a new round of multilateral trade negotiations in order to consolidate the free trading system and to inject renewed confidence in the world economy". Both the general subject of rollback and the more precise proposal for a new GATT round have been under discussion within the Community and are likely to be taken up again at the OECD Ministerial Meeting and the London Economic Summit.

3. Ministers agreed last November that the United Kingdom should support Commission proposals for a first Community contribution to rollback through the acceleration of Tokyo Round tariff cuts and the elimination of quantitative restrictions on imports from the poorest developing countries. The Community's measures are due to take effect in January 1985. Present indications are that other OECD states will take

/similar

similar action. There is no agreement yet with OECD on either a second phase of rollback or a new GATT round.

4. In the Ministerial correspondence about phase one of rollback, the Chancellor of the Exchequer suggested that action might be proceeding too slowly and proposed that ES should discuss the United Kingdom's strategy towards trade liberalisation and rollback. The Secretary of State for Trade and Industry's first memorandum (ES(84) 1) accordingly sets out the issues, considering first whether the United Kingdom should support a new GATT negotiating round and, secondly, what we could offer in stage two of rollback. It contains detailed papers by officials on both questions. His second memorandum (ES(84) 2) was drafted after his recent visit to Washington. It concentrates on the major issues, including the need to help the United States Administration resist protectionist policies, and sets out a number of clear conclusions (paragraph 14) which he invites the Committee to endorse.

MAIN ISSUES

5. The issues are -

(i) whether the United Kingdom's objective should continue to be to work for the open trading system and, if so, which protectionist policies of other countries should be our major priorities for challenge and correction;

(ii) whether the United Kingdom should be prepared to begin dismantling its own remaining protective measures (including voluntary restraint arrangements) as a contribution to rollback;

(iii) how the United Kingdom should approach the questions of rollback and a new GATT round at the forthcoming meetings.

United Kingdom objectives

6. The Secretary of State for Trade and Industry concludes in ES(84) 2 (paragraph 14(a)) that it is in the United Kingdom's interest to maintain and strengthen the liberal trading system.

/In

In both ES(84) 1 and ES(84) 2 the following more specific United Kingdom objectives are identified:

a. to contain pressures for protectionism in industrial countries such as the United States and also within the Community;

b. to reduce the protectionism of the Newly Industrialised Countries (NICs);

c. to encourage the opening of the Japanese market;

d. to liberalise trade in services and agriculture, and in particular within the Community to continue to press for the liberalisation of the internal market in goods and services.

There is likely to be general agreement with these objectives but it is necessary also to be realistic about the limited gains which may be possible in third country markets (Japan and the NICs, for example, are unlikely to offer much).

The United Kingdom's own trading practices

7. If the United Kingdom were to judge that significant advantages on the lines set out in paragraph 6 above could be obtained, concessions on the United Kingdom's own remaining protective measures would be needed. The Secretary of State for Trade and Industry concludes (paragraph 14(b) of ES(84) 2) that we should not unilaterally disarm in this field nor expose, for example, our textiles industry too speedily to total free trade. He is not opposed to some concessions which should strictly match those made by others. In Annex B of ES(84) 1, the low remaining industrial tariffs, agriculture, the Multi-Fibre Arrangement (MFA), voluntary restraint arrangements (VRAs), and some residual quantitative restrictions are identified as areas in which other countries will seek concessions from the Community. However, accelerated reductions in the Community tariffs will have little impact because they are already low; there are very few quantitative restrictions (although France and Italy retain some national restrictions); and the Community is circumscribed in the initiatives it can

/take

take on the common agricultural policy. The main areas for concessions directly affecting the United Kingdom are therefore likely to be the politically sensitive arrangements, namely the MFA and VRAs. On the MFA, there is probably not much point in detailed discussion of future Government policy until Professor Silberston's study of its costs and benefits (Annex B, paragraph 11) has been completed. The attitudes of other Community member states will also be important, and we do not yet know what these will be. The present MFA runs out in 1986 and any possible successor agreement is unlikely to be considered until next year.

8. This leaves VRAs, of which the United Kingdom is seen as one of the chief proponents. The Government will be under pressure to concede "transparency" - the notification of all VRAs to a body such as GATT. So far, the Community has refused to accept transparency except in exchange for the right to take selective safeguard action under GATT Article XIX, ie against individual countries as opposed to all GATT members who export the goods in question. The Secretary of State for Trade and Industry supports the continuation of VRAs as a flexible form of protection. In the last resort he is prepared to concede transparency without demanding a quid pro quo of selectivity. But the Chancellor of the Exchequer may argue that the United Kingdom should go further and accept the dismantling of VRAs, at least in the longer term.

How best to pursue rollback in the future, including at the OECD Ministerial meeting and the Economic Summit

9. The Secretary of State for Trade and Industry concludes (paragraph 14(d) and (e)) that major progress on rollback is unlikely to take place in advance of a new GATT round. We should therefore aim for a round which takes place on a timetable and with an agenda which suits our interests. He proposes that at the London Economic Summit we should aim for progress on the present GATT work programme so as to pave the way for a new round but avoid commitments at this stage on timing and agenda (paragraph 14(g)). There are good arguments

/in

in favour of supporting a new GATT round at the OECD and at the London Economic Summit, including the need to discourage United States protectionism in an election year, and the Trade and Industry Secretary's formulation seems to be right and probably negotiable. The Chancellor of the Exchequer and the Foreign and Commonwealth Secretary may argue that we should aim for an even more positive approach at the Summit, both on the GATT round and on more rollback in advance of the round. But this may not be achievable. The Economic Summit itself cannot take decisions on a GATT round, since many more countries are involved. Most members of the Community also take a fairly cautious view of the prospects for a new round, fearing that the Community would find itself under pressure to make unwelcome concessions or be unable to satisfy the developing world in sensitive areas such as textiles, in which case the NICs would refuse to reduce their own high barriers. On further rollback before a new GATT round, a commitment to completion of the work already in hand in GATT and OECD is likely to be the most that can be achieved.

HANDLING

10. The Secretary of State for Trade and Industry will introduce his paper. You may wish to lead the discussion either on the basis of the three main issues identified above (paras 5) or, perhaps more simply, by going through the conclusions set out in paragraph 14 of ES(84) 2. The Chancellor of the Exchequer may wish to argue the case for reducing the remaining United Kingdom trade barriers; and the Foreign and Commonwealth Secretary may wish to comment on the Community aspects and on the attitudes of our main trading partners.

/CONCLUSIONS

CONCLUSIONS

11. You may, if the Committee agrees, be able to reach the following conclusions:

(i) the United Kingdom's best interests continue to lie in combatting protectionism and we should therefore take a generally positive attitude to further rollback;

(ii) the United Kingdom should be prepared to consider some concessions in the areas of tariffs and VRAs, but only in exchange for a worthwhile contribution from others. It is too early at this stage to know whether a balanced deal is possible or to consider what precise concessions we might offer;

(iii) the United Kingdom should work for language in the communique of the London Summit which stresses the need for progress on the present GATT work programme so as to pave the way for a new multilateral negotiating round.

Cabinet Office

7 March 1984

Prime Minister.

A.J.C. 17/2

c. Mr. Turnbull.

JH 886

PRIME MINISTER

I spent four days last week in Washington and New York making or renewing contacts in the Administration and on the Hill, and discussing with US firms some specific issues of immediate interest.

Protectionism

2 In Election year, the protectionist lobbies are in full cry. All the important Democratic candidates (including Mondale) are supporting protectionist measures; Bills to limit imports are being actively prosecuted in Congress; and actions are being brought under existing laws which will require decision by the President a few weeks before the Election. It is a mark of the strength of protectionist sentiment that even Congressmen opposed to protectionist pressures to whom I spoke were adopting the dangerous tactics not of outright opposition, but of encouraging extreme measures in the hope of these measures being eventually defeated with no time left to promote more moderate Bills. Although those to whom I spoke in the Administration were concerned to minimise the economic damage of protectionist measures, they were not confident that their arguments would hold sway in the more politically charged atmosphere of the White House. Commerce Secretary Baldrige suggested it would be useful if you were to write directly to the President, setting out what

is at risk. I see advantage in your doing so later in the year, as a counter-balance to the severe domestic pressures he will then be facing.

3 In my speeches and interviews I drew parallels between the situation faced by the US today, and our own four years ago, when our currency was over-valued. I argued forcibly that the cause of the US trade imbalance was the budget deficit, and that action should be addressed to the root cause, not to the symptoms. It was interesting that among business circles there was no disputing the damage that the budget deficit is doing to US trade, and the question was rather whether remedial action could be delayed until after the Election. In general, I pointed out that we had rejected demands for import controls - and that we had not suffered electorally for our tough stance.

Bilateral Issues

4 On the question of limiting the export of high technology goods to the Eastern bloc, I stressed the importance which we attached to preserving, where possible, the technological advantage so important to the Western Alliance. I also stressed the need to be practical about this; and for there to be proper consultation between allies. I was struck by the disinclination of most of those whom I met to take head on our arguments about the unacceptable nature of the US intrusions into our sovereignty. We had an official team in Washington at the same time discussing particular problems of extra-territoriality and they reported a far more constructive attitude from the agencies

concerned. I am doubtful, however, whether this will easily be converted into guarantees for future arrangements. But, just as pressure from major American firms is helping to persuade the various states to take a more reasonable line on unitary taxation, I think that in the same way we may eventually get results in the export controls area by using leverage on the companies. I met the Chairman of IBM and AT&T International, both of which currently have ambitions to develop their UK interests - IBM as a partner of BT and a potential contributor to the Alvey programme, and AT&T as a possible purchaser of INMOS. They quickly recognised that the extra-territorial application of US export controls necessarily affected our attitude. I hope they will be able to persuade the Administration to deal with these questions pragmatically. I know that both have started to press the need so to do on the Administration.

We said No to IBM - they were right about it

5 On particular issues, the Department of Justice is evidently pleased with the way we are responding to their needs in respect of banking secrecy in the Caymans and I shall be looking for some give in their position on international anti-trust matters. The cases involving the Laker liquidator, although still fraught with danger for our airlines because of the attitude of the judge in the private suit, have shown that the Administration can work with us in this area.

General Points

6 Two points of domestic UK policy were strongly illuminated

during my discussions in the US. The first is the need, stressed in discussions which I had in New York with Morgan Stanley who will be advising on any US flotation of BT shares, to decide very quickly indeed in a number of key financial points affecting BT. The timetable in the US is even tighter than that in the UK, because of the need to issue a "red herring" prospectus. In both countries there will have to be a major marketing effort to prepare investors for a flotation of BT's magnitude. We shall therefore have to resolve the key financial points affecting BT by the end of March if we are to meet this timetable. I shall be discussing with Nigel Lawson how to ensure we do this. The second point emerged in a television interview on our privatisation programme. Although there was in general marked and enthusiastic interest in our plans, I was concerned that the line of questioning was based on the assumption that our policy was to raise revenue irrespective of the competition policy considerations. It was an indication of how much we have to do - even in a country as receptive to the idea as the US - to persuade people of the contribution to economic efficiency we shall make through privatising state concerns.

7 I also took the opportunity of stressing to my opposite numbers the need to establish with them the direct high level contacts which Ministers in the UK naturally enjoy with their European counterparts. I think this will be a difficult year for our relations with US, particularly on the trade side, and I

would like to think we can deal with problems quickly and informally.

Exports

8 Our exports to the US have been rather slow to respond to the strength of the dollar but the latter part of 1983 brought a strong surge, especially in consumer goods. We are now giving a firmer sense of direction to the official services in supporting exports to this market, and I propose making a separate visit to the West Coast in May, to help launch a new initiative in an area where there is still considerable untapped potential for our exports, and which is an important centre for inward investment here.

Envoi

9 I should put on record the excellent arrangements that were made for my visit both by our Embassy in Washington and the British Trade Development Office in New York, for which I am grateful.

10 I am sending copies of this minute to Geoffrey Howe, Nigel Lawson and to Sir Robert Armstrong.

NT

N T

16 February 1984

Department of Trade and Industry

With the compliments of

the Solicitor-General

Attorney General's Chambers,
Law Officers' Department,
Royal Courts of Justice,
Strand, W.C.2A 2LL

01 405 7641 Extn. 3407

CONFIDENTIAL

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

The Rt.Hon Norman Tebbit MP
Secretary of State for Trade & Industry
1 Victoria Street
London SW1

nbpm
29/12

22 December 1983

Dear Norman.

IMPORT EXPORT AND CUSTOMS POWERS (DEFENCE) ACT 1939

You copied to Michael Havers to to me your letter of 20 December to John Biffen about the type of stop-gap legislation which would be needed if the Court of Appeal rules against the Government on the 1939 Act.

I am sure that you are right to propose that the legislation should be retrospective in the sense that it validated things previously done (and not previously challenged) in reliance on the 1939 Act powers. No fresh challenge could then be brought in respect of such past reliance. But I think that there could be justifiable criticism on grounds of principle if we went further and deprived persons of rights that had already accrued to them by virtue of their recourse to the courts. The legislation should, therefore, not purport to set aside, in respect of the parties concerned, judgments already given or to extinguish rights asserted in proceedings already commenced. The point may prove to be academic except in relation to the plaintiffs in the current proceedings. But, because of the principle involved, this is an area where we do need to tread carefully.

I am copying this letter to the recipients of yours.

Yours ever
Pat

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JU256
Secretary of State for Trade and Industry

20 December 1983

CONFIDENTIAL

Lord Privy Seal
Privy Council Office
Whitehall
London
SW1A 2AT

W. S. I. R.

A.S.C. 22/12.

Dear John.

IMPORT EXPORT AND CUSTOMS POWERS (DEFENCE) ACT 1939

Thank you for your letter of 12 December agreeing that stop-gap legislation on this subject may be necessary, depending upon the decision of the Court of Appeal.

In the event of the Court deciding against the Government, its ruling would probably be limited to the use of the Act under challenge (i.e banana controls); but of course it would have wider implications and unless immediately rectified would attract similar challenges in relation to other controls. My proposition for stop-gap legislation would be to declare that the 1939 powers may be used for the purposes for which we and previous Governments have been using them, and my intention would be to make it clear that this declaratory provision related to past as well as future use.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Leon Brittan, Patrick Jenkin, Michael Jopling, Michael Havers, Patrick Mayhew, John Wakeham, Bertie Denham and Sir Robert Armstrong.

Yours
Norman

NORMAN TEBBIT

With the Compliments

of the

Lord Privy Seal

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

12 December 1983

Dear Norman,

N.B.P.M.

IMPORT, EXPORT AND CUSTOMS POWERS (DEFENCE) ACT 1939

Thank you for your letter of 24 November about the possibility of the need for stop-gap legislation if the case before the Court of Appeal goes against us. I agree that it would be sensible to prepare legislation on the lines you have suggested, although I note that you will not be able to provide final instructions for Counsel until the precise terms of the judgement are known.

Is there meanwhile any cause for concern over retrospection? If the Court of Appeal were to conclude, in the worst case, that the continued use of this Act was ultra vires, would this mean that actions taken under it from the relevant time were illegal, so that the new legislation would have to provide retrospective authority for such actions?

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Leon Brittan, Patrick Jenkin, Michael Jopling, Michael Havers, Patrick Mayhew, John Wakeham, Bertie Denham and Sir Robert Armstrong.

Yours
John Biffen

JOHN BIFFEN

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

Trade, Tariff Barriers, Pt 3

cc NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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SWITCHBOARD 01-215 7877

JU162
Secretary of State for Trade and Industry

8 December 1983

Prime Minister (2)
To note
AT 9/12

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

ROLLING BACK PROTECTIONISM

Thank you for your letters of 21 November and 1 December recording the Prime Minister's agreement to my Secretary of State's proposals in his minute of 18 November on rolling back protectionism, and endorsing the Chancellor's suggestion that he prepare a paper on the Government's strategy towards trade liberalisation for discussion in E(S). Mr Tebbit is happy to provide such a paper, which should be ready early in the New Year.

2 On the specific points raised, I can confirm that the proposals in my Secretary of State's minute will not affect the agreements which restrain exports of textiles and footwear to the UK.

3 On the US restrictions on speciality steels, the Prime Minister will be aware that we are pressing hard in the Community and GATT for full compensation, and the Community decided, at the Council in Brussels on 29 November, to retaliate against the US if there is no substantial improvement in the US offer by 14 January 1984.

4 Perhaps I should also record that the discussion on the "rollback" issue at the Foreign Affairs Council in Brussels on 29 November was, in the event, very brief. The French were not yet ready for a substantive discussion, although it is intended that the Council will return to the subject at the December Council later this month. I am sending copies of this letter to the Private Secretaries to members of E(S) Committee and to Richard Hatfield (Cabinet Office).

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

Trade, Tariff Barriers, pt 3.

Chancellor of the Duchy of Lancaster

Prime Minister (2)

AT 6/12

PRIME MINISTER

TRADE POLICY: STANDSTILL AND ROLLBACK

As this is to be discussed at E(S) I will confine myself at this stage to saying that we must not be too quixotic about this. The Americans who talk the loudest are themselves the worst offenders. We must ensure that we do not make, or agree, one-sided relaxations and that we get a proper quid pro quo for any concessions we do make. The heady days of our vast balance of payments surpluses are over.

I am sending copies of this minute to other members of E(S) and Sir Robert Armstrong.

A.C.

A C

6 December 1983

CONFIDENTIAL

cc LPO
FCO
HMT
D/N
CDL
D/EMP
CO

HL

10 DOWNING STREET

From the Private Secretary

1 December 1983

Rolling Back Protectionism

The Prime Minister has seen the minutes from the Foreign Secretary and the Chancellor, commenting on your Secretary of State's minute of 18 November. She agrees that we should be looking ahead to the later stages of the programme to reverse protectionism and she therefore endorses the Chancellor's suggestion that your Secretary of State should prepare a paper on the Government's strategy towards trade liberalisation, for discussion in E(S).

I am sending copies of this letter to the Private Secretaries to members of E(S) Committee and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

HL

10 DOWNING STREET

(1)

Prime Minister

You have already agreed M. Tebbit's proposals for the first stage of rollback. Both Chancellor and Foreign Secretary also agree

But both want to look further ahead and accelerate pace.

Agree Chancellor's proposals for a paper to E(S) (or E(A)?) on issues involved

AT
29/11

cc NO

BP the Treasury expand
MT 28/11

PM/83/95

PRIME MINISTER

Rolling Back Protectionism

1. I have seen the Secretary of State for Trade and Industry's minute of 18 November and also your comments.

2. Norman Tebbit rightly looked ahead to discussion at next year's London Economic Summit and a possible new GATT Ministerial meeting. These are likely to become steps along a path to a new trade round. At Williamsburg we have already agreed "to continue consultations on proposals for a new negotiating round in the GATT" and to "work to achieve further trade liberalisation negotiations in the GATT". The Americans talk privately (but probably prematurely) of one in 1985 and the Japanese have, as Norman Tebbit pointed out, proposed a new round publicly. The GATT work programme to be completed in 1984 is clearly pointing in the same direction. So it seems to me clear that the London Economic Summit will have to address this issue.

3. I therefore agree with Norman Tebbit that, while the follow-up to Williamsburg on rollback requires us for the moment only to look at the first stage proposals which he describes, we need also to be thinking carefully about the longer term issues. As he points out, rolling back protectionism accords with our own market approach to world trade and will create a climate which will make for easier handling of current international commercial and financial difficulties. I believe that, despite the recent set back over safeguards and grey area measures in Geneva, we should continue to work for progress in this area in a way which, while meeting the essential short term needs of our industries, also recognises that in the longer term arrangements for them should be brought within the GATT's open market system.

/4. I also

4. I also agree with Norman Tebbit's proposals on those matters in the first phase which require immediate decision. I share your and his views that we should support the proposals to accelerate certain tariff cuts and work towards dropping the 2% growth condition for beginning the rollback exercise. The Commission's proposals are modest but very much on the right lines and within the current international consensus. We should give them our strong support at the Foreign Affairs Council on 29 November.

5. I am copying this minute to members of E(S) and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
28 November 1983

cc 100

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

TRADE POLICY: STANDSTILL AND ROLLBACK

Norman Tebbit's minute of 18 November suggested the line we should take at this month's Foreign Affairs Council on the Community's proposals for implementing the Williamsburg commitment on rolling-back protectionism.

2. I welcome the suggestion that we should support the advancement of the Tokyo Round tariff cuts without its being conditional on the EEC first achieving 2 per cent growth. I agree also that we should support some liberalisation of imports from the LDC's, though what the Commission seems likely to propose will not be of any great significance particularly since I understand textiles are to be excluded.

3. If I have any criticism, it is that rollback is proceeding too slowly and that the UK has so far taken too much of a back-seat. The Commission's proposals are extremely modest in scale - for example, advancing the Tokyo Round tariff cuts will reduce the Community tariff by a mere 0.3 per cent on average. I believe at the next stage something more ambitious is required if progress toward the mutual removal of restrictions envisaged at Williamsburg is not to run out of steam.

4. It is not just that we have a strong interest in less protectionism for the sake of maintaining the momentum of world recovery: we also have much to gain from a more liberal trading regime, from

/the point

the point of view both of our exports and of competition at home. Although there are circumstances where temporary protection can be justified, particularly where the social costs of an industry in rapid decline, such as textiles, seem excessive, too often protection of one industry is at the expense of other industries. Although several of our industries have come to rely on voluntary restraint arrangements and other "grey area" measures, I believe we must be particularly careful about extending these further, and in stage two of the rollback exercise be prepared in principle to discuss their gradual dismantling.

5. Of course, I am well conscious of the domestic political dimension to all this and of the need to get our trading partners to reduce their barriers to our exports. The best way to get them to do so is bound to vary from case to case. Where our trading partners impose greater restraints on our exports than we do on theirs (eg Spain on cars), we must make clear to them the need for greater reciprocity, using every possible means to secure it.

6. One side-benefit of a more generous attitude to roll-back would be that we would be in a better position at next year's Summit when this subject is bound to be high on the agenda.

7. It would be helpful if Norman could bring forward a paper for discussion, perhaps in E(S), on our strategy towards trade liberalisation. This would enable us to clarify our views on the second stage of roll-back generally, on the next round of negotiations on safeguards in the GATT following the recent breakdown, and on the Japanese proposal for a new round of multilateral trade negotiations.

8. I am sending copies of this minute to members of E(S) Committee and to Sir Robert Armstrong.

pp. N.L.
25 November 1983

(Approved by the Chancellor; signed in his absence in Brussels.)

Trade : Non tariff barriers A3

CC NO

(2)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU1
Secretary of State for Trade and Industry

24 November 1983

Andrew Coles
To note
AT 25/11

The Rt Hon John Biffen MP
The Lord Privy Seal
Privy Council Office
Whitehall
London SW1A 2AT

MS

Prime Minister.
To be aware.
A.J.C. 30/11

Dear John,

Earlier this year the continued reliance of successive governments on the Import, Export and Customs Powers (Defence) Act 1939 to control imports and exports was challenged in the Courts. The purpose of this letter is to tell you that the case is to be heard by the Court of Appeal soon (though probably not until after Christmas), and of the contingency planning I am putting in hand.

2 At the Court of Appeal the appellants will argue that the powers conferred by the 1939 Act were related exclusively to wartime circumstances and may therefore not now be used for the variety of economic purposes to which they have since been put by all administrations.

3 Our legal advice is that this challenge is unlikely to succeed in the Court of Appeal, but there may nevertheless be criticism of the continued use of the 1939 Act. We should then have to consider whether to seek new powers to replace it.

4 Should the Court of Appeal decide that the continued use of the Act is ultra vires, we should have to introduce stopgap legislation at once. Without it we would, for example, lose our COCOM export controls, and our ability to control the import of firearms and nuclear materials (as well as of bananas, which are the prime target of this Court action). As a piece of contingency planning, I am therefore asking my officials to make preparations for an appropriate short Bill to be drafted, for consideration if the necessity arises. The content of such a Bill would depend on the finding of the Court of Appeal but it might merely declare that the use of the powers conferred by the 1939 Act is not restricted to the emergency for which that Act was passed. While passing such a measure, Parliament might well seek a commitment from the Government to introduce in due course more up-to-date legislation, providing for more Parliamentary scrutiny. The details of such a Bill could then be put together with less haste.

5 I am copying this letter to the Prime Minister, and Willie Whitelaw, Geoffrey Howe, Leon Brittan, Patrick Jenkin, Michael Jopling, Michael Havers, Patrick Mayhew, John Wakeham and Bertie Denham; and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

CONFIDENTIAL

R M

FILE

ES: LPC
FCO
HMT
D Energy
[redacted]
CDL
Emp

CO

10 DOWNING STREET

From the Private Secretary

21 November, 1983

ROLLING BACK PROTECTIONISM

The Prime Minister has seen your Secretary of State's minute of 18 November and is content with his proposals to bring forward certain tariff cuts and to work towards dropping the 2 per cent growth condition which the Commission is seeking. This is on the understanding that the liberalisation of tariffs and quotas on imports from developing countries does not involve re-opening the agreements on textiles and shoes.

She has also commented that, with the United States economy now growing rapidly, it ought to be possible to remove the restrictions on speciality steels.

I am sending a copy of this letter to the Private Secretaries to members of E(S) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

C. McCarthy, Esq.,
Department of Trade and Industry

CONFIDENTIAL

JF4860

Prime Minister 1

Agree X subject to colleagues. The quantitative effect of these measures is very limited.

CONFIDENTIAL Yes but

AT 18/1

PRIME MINISTER

1) To increase imports from the poorest countries probably means more textiles. Textile quotas? We cannot go back on that and it would cause trouble.

ROLLING BACK PROTECTIONISM

The Williamsburg Economic Summit agreed "to halt protectionism and as recovery proceeds to reverse it by dismantling trade barriers". Similar statements have been issued by other international Ministerial meetings.

2) As U.S. is recovering first - how come the specially high tariffs on motorbikes have not been removed? not

2 Serious discussion has now begun - in the Community, the OECD and the GATT - of how to give effect to the Williamsburg commitments to a "standstill" and "rollback" of protectionism. At next year's London Economic Summit we shall want to point to progress since Williamsburg as a base from which to agree on further steps towards freer world trade. It may prove desirable to work towards a new Ministerial meeting of the GATT and possibly a new round of multilateral trade negotiations which Mr Nakasone proposed, and President Reagan accepted, during the President's recent visit to Japan. A new GATT round has advantages and disadvantages for us. We shall need to decide our attitude to it carefully over the coming months and before the London Summit. There is no point in either a meeting or a new round unless we can expect positive results.

3 The immediate issue concerns the rollback commitment. The indications are that rollback will be approached in two

stages, and it is only on the first stage that we need to take decisions now. The second stage will undoubtedly be more difficult, for it is bound to include discussions of voluntary restraint arrangements. I have decided to block an interim compromise reached in Geneva last week because it would have involved some rolling back of our UK and Community restraint arrangements while other more formal measures used by other countries (such as recent US speciality steel measures) would have remained intact.

4 This said, rolling back protectionism accords with our own market approach to world trade provided that rollback is seriously pursued not only by the Community but by other industrial countries and that there is a significant contribution from the developing world, especially the Newly Industrialising Countries. It ought to make some contribution to the development of the recovery: and create a climate in which it will be easier, if not easy, to handle the various international commercial and financial problems which beset us.

5 In the first stage of rollback it seems likely that the action expected of the main developed countries will be confined to:

/- bringing ...

a ½% cut achieved a year early

- bringing forward certain tariff cuts to which we are already all committed as a result of the 1970s Tokyo Round of multilateral trade negotiations, and

- some liberalisation of tariffs and quotas on imports from developing countries, particularly the least developed among them.

Textiles? Shoes?

Neither will in itself be of any substantial economic importance. The first of these will be psychologically valuable and the second politically essential. They will be significant as a signal that more liberal trading is again the order of the day, and might be of some presentational value in the context of the debt problem.

6 The Japanese have already announced that they will move in these ways. The USA are also expected to respond positively, but as their election approaches there will be a need to keep them up to the mark. For the Community the Commission has made proposals on the same lines, and will seek a decision at the Foreign Affairs Council on 28 November. I propose to give our strong support to this general approach.

/7 If ...

7 If this is agreed, there is only one point of detail on which we need settle a line before the FAC. The Commission proposes that the Community should delay implementation of accelerated tariff cuts until it has reached 2% growth, ie 1985 or even 1986. France, whose recovery from the recession is particularly slow, is making an issue of this; but Germany sees no need to wait before making such a largely symbolic move, and believes the USA and others will refuse to cut their tariffs in advance of the Community.

8 I discussed this with Count Lambsdorff in Bonn last week and I believe that the Germans are right that insistence on 2% growth risks aborting this first stage of rollback, and that the Community would be blamed. Paul Channon was told by the Americans that the 2% trigger would not be acceptable in the Congress.

9 I therefore propose that we support moves to bring forward certain tariff cuts as noted in paragraph 5 above and work towards dropping the 2% growth condition.

10 I am copying this minute to the members of E(S) Committee and to Sir Robert Armstrong.

NT

NORMAN TEBBIT

18 November 1983

Department of Trade and Industry

FCS/83/167

SECRETARY OF STATE FOR TRANSPORT

2/9.

Competition in Liner Shipping: The UNCTAD Liner Code

1. Thank you for your letter of 8 August endorsing the conclusions of the joint report prepared by DTp/FCO officials on possible action to safeguard competition in Liner Shipping when the UK accedes to the UNCTAD Liner Code.

2. I also agree with the report's recommendation that we now canvass support among the memeber states and the Commission for a UK reservation designed to protect the position of non-conference lines. We have however to recognise that our proposed reservation may have to overcome significant opposition and possible legal challenge given the known misgivings of the Commission's Legal Service, and the doubts of several member states. If this opposition should prove insurmountable, we shall, as you rightly suggest, need to reconsider our options.

3. I am copying this letter to the Prime Minister, colleagues on E(S) Committee and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
2 September 1983

Foreign and Commonwealth Office

London SW1A 2AH

17 August 1983

cc PS/No 10
PS/Member of E(S)
PS/Sir Robert Armstrong

COMPETITION IN LINER SHIPPING: THE UNCTAD CODE

Mr King wrote to Sir G Howe on 8 August about the joint report by officials commissioned by Mr Pym and Lord Cockfield on the Code and its implications for non-conference lines. The Foreign and Commonwealth Secretary will, I am sure, wish to study the report on his return and give his considered reaction to it.

While formal FCO comment on this course of action must await Sir G Howe's return, Mr Whitney has said that it would, in the meantime, be desirable for officials to continue with preparatory work for a canvassing exercise with our EC partners and the Commission; should Sir G Howe endorse the report's recommendation, it would then be possible to proceed without delay to consult our partners.

P J Laing
Private Secretary to
Ray Whitney MP

PS/Mr King
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

TRADE
Non tariff barriers
PT 3.

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Downing Street
LONDON SW

8 August 1983

Dear Geoffrey,

COMPETITION IN LINER SHIPPING: THE UNCTAD CODE

I have considered the joint report by our officials, commissioned by Arthur Cockfield and Francis Pym before the Election, concerning the UNCTAD Convention on liner conference shipping, and the problems that would arise if developing countries tried to use that Convention as a pretext to ban competition on any of our liner routes from non-conference shipping lines. I am sure that the report is right to conclude that the UK's accession must be on the condition that our trading partners party to the Convention continue to allow non-conference lines to operate in our mutual trades; and that we should therefore make a formal reservation to free our hands in the event that another country breaches that condition.

I also agree that we should canvass the views of the Member States and the Commission, as the report recommends. I accept that some of our EC partners (not all of whom share our commitment to keep the liner shipping on their trading routes open to competition) may seek to challenge our making such a reservation, on the ground that the Community has already reached a "common position" on the UNCTAD Code. This would inevitably call in question the considerations that reconciled us, in 1979, to accepting our predecessors' policy on accession to this UNCTAD Code.

If we encounter such opposition I am sure we must argue robustly that our further reservation in no way affects the aspects of the Code on which a common EC position has been agreed. However we accept that Denmark and Greece would support our making the further reservation. The Commission too are likely to be sympathetic towards a pro-competitive stance, which is clearly in tune with the treaty. They will also be keen to avoid forcing us to conclude that we cannot accede to the Convention.

If we meet insuperable opposition in seeking to "Community-proof" our proposed further reservation, we must clearly take stock. But the best course then might simply be to hold our hand and see how the Code works in practice after it comes into force on October 6, before proceeding with our accession.

If you share my concurrence in the report's recommendations, the next step is no doubt for our officials to agree the text of a lobbying telegram to our Embassies in Community capitals, together with the text of our proposed reservation.

I am copying this letter to the Prime Minister, to colleagues on E(S) Committee, and to Sir Robert Armstrong.

TOM KING

Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State
Rt Hon Timothy Raison MP

9 August 1983

Dear Cecil

RENEWAL OF THE UNITED STATES EXPORT ADMINISTRATION ACT

Thank you for your letter of 3 August to Geoffrey Howe, who is on leave at present. Our officials have been closely in touch on this issue. I entirely agree with the line which you propose.

I am copying this letter to the recipients of yours.

Yours ever
Tim

TIMOTHY RAISON

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry
1 Victoria Street
LONDON SW1H OET

Trade: Non Tariff Barriers

CONFIDENTIAL

JH 277

DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB
Telex 8813148
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Telephone Direct Line 01-212 3301
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Secretary of State for Trade and Industry

3 August 1983

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

Dear Geoffrey,

THE RENEWAL OF THE UNITED STATES EXPORT ADMINISTRATION ACT

Arthur Cockfield wrote to Francis Pym on 4 February outlining a proposed strategy to counter the use of the Export Administration Act to impose controls extraterritorially on companies in this country.

2 The first part of this strategy - to bring pressure to bear on the Administration and Congress to amend the EAA itself so as to remove its objectionable features - has been pursued with great vigour and some success. All those in positions of influence in Washington have been made aware of the UK point of view; and largely at our prompting the European Community and a number of other friendly countries have made strong representations on similar lines. There are clear signs that our efforts have influenced the debates in Congress in a favourable sense.

3 The other main element in Arthur Cockfield's intended strategy was the proposal that, unless the EAA was amended so as to remove its extraterritorial application, we should exercise our powers under the Protection of Trading Interests Act to declare the extraterritorial application of the EAA and similar US legislation to be contrary to UK trading interests; and follow this up with a general direction forbidding firms in this country from complying with such legislation.

4 Since then, matters have progressed slowly in Congress but there have been some encouraging developments. There has been strong support for 'contract sanctity' provisions which would severely restrict the President's power to impose foreign policy controls retroactively, as happened last year over the Siberian pipeline; while in the House of Representatives the latest version of the Bill would also restrict the extent to which foreign policy controls could be applied to the overseas subsidiaries of US companies.

5 The situation in Congress however remains fluid. Very different Bills are likely to emerge from the Senate and the House of Representatives; and a conference between the two Houses, probably in September, may well fail to resolve the differences before the present EAA expires at the end of September. In that case, the most likely outcome will be a simple extension of the present Act, with its extraterritorial features.

6 Your talks with Mr Shultz suggest that the Administration may be showing flexibility on the issue of retroactivity, but there is little sign of give, at least in the operative sections of the Bill, on the central point of extraterritorial application.

7 The Prime Minister said in her Press Conference at Williamsburg that if the EAA were not amended, we should have to consider carefully what we should do; and she recalled the fact that we had invoked the PTI Act last year in the Siberian pipeline case. Since then we have given further evidence of our determination to safeguard our interests by taking action under the PTI Act in the aviation anti-trust case. The view of our Embassy now is that it is not necessary, and could be counter-productive in our efforts to influence Congress, to be more explicit at this stage about using the PTI Act against the EAA.

8 In the circumstances, I see advantage in postponing a decision on the use of the PTI Act until after the holidays if we can. It will be much clearer by September whether the EAA is likely to be amended, and if so, how. There is always the outside chance of developments which would require urgent Ministerial attention in August. But failing this, I would propose to bring before colleagues in September my assessment of the situation and suggestions as to how we respond.

9 I am sending copies of this to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Defence, the Attorney General, other colleagues on OD and to Sir Robert Armstrong.

Yours ever,

Geoffrey

USA: Visit of Prime President Bush
UK

June '87

Trade Non Tariff pt 3

CCNO

2

Prime Minister

MCS 13/5

PRIME MINISTER

EXPORT CREDITS SUBSIDIES AND RISKS

with MCS?

The Chancellor minuted you on 28 March : I have since seen the comments of Francis Pym, Michael Heseltine and Kenneth Baker.

In themselves, the proposed guidelines appear relatively innocuous. But everything depends upon the spirit in which the guidelines are applied. I am concerned, therefore, by the general tone of the Chancellor's minute. For instance, it tells only half the story to say that "export subsidies are an inefficient way of supporting industry and employment". They might not represent the ideal use of resources. But I consider them to be a great deal more efficient than a range of other more direct employment schemes operated by the Government at a great deal more cost. The amount of money available to help our exporters is too small, not too great.

More specifically, the proposed guidelines refer at a number of points to the criteria to be applied when judging cases which go beyond normal ECGD support. An exercise to elaborate these criteria is currently in progress. But I have to say that I, and several colleagues, have expressed reservations about certain aspects of the criteria. In particular, whether we should try to discriminate between particular sectors of industry as candidates for support, or to restrict assistance to a small number of priority markets. The conclusions finally reached on these different questions will evidently have a bearing on the implementation of the proposed guidelines.

I hope that these general comments, and those put forward by Kenneth Baker, can be borne in mind in the implementation of the new procedures. Upon that basis, I would be content that they should be put into practice. If practical problems arise, then we will need to review the system as the Chancellor has suggested.

Copies of this minute go to members of EX Committee, to Michael Heseltine, Kenneth Baker, the Governor of the Bank of England and Sir Robert Armstrong.

A.C.

LORD COCKFIELD

DEPARTMENT OF TRADE

13 MAY 1983

CC NO

2

Prime Minister

MCS 9/5

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

6 May 1983

The Rt. Hon. Lord Cockfield
Secretary of State for Trade

Dear Arthur

ECONOMISTS' REPORT ON SUPPORT OF CAPITAL GOODS EXPORT

attached. Thank you for your letter of 29 April.

Of course there is always a risk that the report will be misinterpreted, especially by those with a vested interest in perpetuating export credit subsidies eg those exporters who produce the 5 per cent of exports which stand to benefit from cheap credit. My own belief is that publication of the full report, properly handled, would not lend itself so easily to the kind of slanted and superficial treatment which we saw in the national press earlier this year when news of the report's existence first leaked. I believe those who have the interests of British industry as a whole at heart would appreciate the force of the report's argument that, within a given macro-economic framework of monetary and PSBR constraints, the cost of export credit subsidies has to be borne by the rest of industry, through for example, higher taxes or the exchange rate.

There is another point. The existence of the report is of course widely known; indeed I understand that your own Department (off their own bat) provided copies of the report some time ago to members of the Overseas Projects Board of the BOTB. We are already under some pressure to publish, and this is likely to increase - for example as a result of a discussion which has been arranged next week at the Treasury between officials of interested departments and representatives of NEDO, at which the subject for discussion will be the value to the UK economy of large mechanical and electrical engineering export projects. It can only be a matter of time before we are faced with demands to publish, perhaps in Parliament, which we would find it difficult to refuse.

In the light of your letter I will not press my proposal for immediate publication. But I think we must plan for the possibility that we may be forced to publish in the near future. I am therefore asking my officials to get in touch with yours to agree on the editorial changes which would be necessary in a published version.

Copies of this letter go to the other recipients of yours.

Yours

Geoffrey

GEOFFREY HOWE

Trade Non tariff barriers

Pt 3

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

CE NO

RESTRICTED

From the Secretary of State

2

Prime Minister

The Chancellor will not agree at all with X

MCS 3/5

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

29 April 1983

MT

Dear Chancellor,

ECONOMISTS' REPORT ON SUPPORT OF CAPITAL GOODS FOR EXPORT

Thank you for your minute of 29 March proposing that a copy of the above paper should be laid in the Library of the House of Commons.

There are a number of points of detail which could be pursued at an official level. But leaving that on one side, I really do wonder whether the interests of Government would be well served by the publication of this report. It is a myopic document and will be widely interpreted as an attempt by the Treasury to pull the rug out from under British industry just as the economy is beginning to recover. X

We do not live in a world peopled by economists. We are, on the contrary, fighting for national survival in a jungle inhabited by people who set no store by the rules of the game. I would think that the paper would be greeted with dismay if not with anger by the industry. I, therefore, seriously doubt the wisdom of stirring up of such a hornets' nest as an opening gambit in a run-up to an Election.

TRADE: Non-Tariff barriers Pt 3

RESTRICTED

From the Secretary of State

Copies of this letter go to the Prime Minister, Patrick Jenkin, Francis Pym and Sir Robert Armstrong.

Yours sincerely,

for LORD COCKFIELD
(Approved by the Secretary of State
and signed in his absence)

cc RJ

2

Prime Minister

MO 26/9

MO 20/4

PRIME MINISTER

EXPORT CREDIT SUBSIDIES AND RISKS

Like Patrick Jenkin whose views were expressed by Kenneth Baker in his letter of 13th April, I am concerned at some of the implications of Geoffrey Howe's minute of 28th March.

2. The tighter regime reflected in the revised guidelines seems bound to mean a more difficult climate for export credit cover. It may still be necessary, in any case, to argue through defence sales cases on their merits, and I recognise that there are certain safeguards written into the terms of the operating guidelines which are no doubt designed to protect the Defence Industry's interest. But the result seems bound to affect the pace, if not the eventual scope of our response, and this in itself could be damaging to our commercial interests. I agree with Patrick Jenkin that we need to continue to respond rapidly and flexibly in view of the fierce competition which our exporters face. Indeed, my own officials are examining the question of whether the defence sector should have the support of its own subvention fund, by analogy with the Aid and Trade Provision in the civil sector.

3. I am copying this minute to members of the EX Committee, the Governor of the Bank of England and Sir Robert Armstrong.

Ministry of Defence

15th April 1983

Trade: Non Tariff Barriers

Pt 3

cc NO

2 APS. Prime Minister

MCS 13/4

FCS/83/74

CHANCELLOR OF THE EXCHEQUER

File being used as back-up for Ch/Ex meeting

Economist's Report on Support for Capital Goods for Export

1. Thank you for copying to me your minute of 29 March to Arthur Cockfield. Subject to the views of other recipients of your minute, I agree that the report (minus paragraph 31 and possibly Annex 1) should be published as a background paper.

2. I am copying this to the Prime Minister, Patrick Jenkin, Arthur Cockfield, and Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office

13 April, 1983

TRADE
Non Tariff barrier
pt 3

2

Prime Minister 3 pp's

MCS 13/4

FCS/83/72

CHANCELLOR OF THE EXCHEQUER

Export Credit Subsidies and Risks

TPM

1. Thank you for copying to me your minute of 28 March to the Prime Minister. I have now seen her reply.

2. I am content with the new guidelines, which seem to me a reasonable attempt to limit the growth of subsidised credit offers worldwide and to safeguard ECGD's financial position. It will, of course, remain important that decisions on Section 2 (National Interest) business should, while subject to the new guidelines, be taken in the light of all relevant factors - though clearly the prudential ones will often be decisive.

3. I am copying this to the Prime Minister and other members of EX Committee, the Secretary of State for Defence, the Governor of the Bank of England, and Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office

13 April, 1983

RADE : NON - TARIFF BARRIERS : PT 3

2

Prime Minister

MCS 13/4

CONFIDENTIAL

THE PRIME MINISTER

EXPORT CREDIT SUBSIDIES AND RISKS

In his absence, Patrick Jenkin has asked me to comment on Geoffrey Howe's minute of 28 March.

We have no quarrel with the general thesis that we should aim for export credit arrangements which strike a balance between preserving the competitive position of our exporters whilst avoiding, as far as practicable through internationally agreed arrangements, the emergence of wide discrepancies between "consensus" and domestic interest rates as happened some 18 months or so ago. It is also right that when ECGD are paying substantial claims, we should attach due weight to prudential considerations.

On the other hand, I do not consider that Geoffrey Howe's proposals adequately reflect the views Patrick Jenkin expressed in his letter of 11 January, that support for capital goods exports is a necessary complement to our measures to enhance industry's efficiency, and that the adoption of a more restrictive approach eg on credit terms and on measures such as the Aid and Trade Provision (ATP), would have serious implications for the ability of many of our major firms to compete on equal terms with their overseas rivals. Our experience suggests that it will be a long and extremely difficult task to improve the OECD disciplines to the point where distortive financing is eliminated - that, after all, has been a continuing and unachieved aim since the 1960's. Moreover while other countries manipulate the rules, for example through the use of semi-official institutions through which subsidies and support can be applied covertly, I believe that it would be very damaging to our capital goods exporters if we voluntarily restricted our existing room for manoeuvre. Furthermore, we must bear in mind that there is a group of countries, which includes the more aggressive newly industrialised countries and Eastern bloc countries, which are not members of the OECD Consensus arrangements at all.

The signs are that competitive pressures, and the pervasiveness of distortive practices are growing. Our industries have had to adjust sharply over the past 3 years to market changes, and having maintained and in many cases enhanced their competitiveness in those areas which lie

M87/M87ABB

CONFIDENTIAL

within their own control, it is not surprising that our exporters should look to Government to ensure that they receive export credit support commensurate with that provided by foreign authorities. In addition, unless we do support our firms by taking counter measures against aggressive competition, those countries which break the rules will continue to do so with impunity. I understand that the scope for countering the practices of foreign competitor governments, through for example the use of ATP, is now extremely limited, and we shall be subject to serious criticism unless we can demonstrate to industry that we are prepared to respond positively and flexibly so far as basic export credit support is concerned.

I also have reservations about the proposition that international agreement to harden payment terms for exports would not have a significant adverse effect on the UK's relative competitive position. This will only be true if such arrangements can be policed and enforced and experience with the present agreements does not suggest that this can be achieved entirely successfully.

Department of Industry officials are working closely with the Treasury and with ECGD in defining the appropriate UK approach to the forthcoming OECD sector agreement discussions on civil aircraft and nuclear power plant. I think that the agreed negotiating line in fact provides for more flexibility than your guidance suggests.

Finally, I notice that reference is made in a number of places in the guidelines to criteria for special support. I would just make the point that final conclusions have not yet been reached on the arrangements to be adopted following the review by the Working Group on Criteria for Support of Overseas Projects. In particular, we are waiting to see the outcome of the exercise presently being undertaken by officials on the practicability of adopting project sector and market priorities. I would not wish it to be assumed that we have accepted any conclusion in advance especially since I recall that in setting up this study (E(82) 6th meeting) we recognised that discriminating on the basis of sectoral priorities would be contrary to our general approach on industry matters.

I am copying this minute to members of EX Committee, to Michael Heseltine, the Governor of the Bank of England and Sir Robert Armstrong.

K.B.

M87/M87ABB

KENNETH BAKER

13 April 1983

CONFIDENTIAL

c. HMT
FCO
IND
TRADE

file VK
Trade

10 DOWNING STREET

From the Private Secretary

5 April 1983

Dear John,

Export Credit Subsidies and Risks

The Prime Minister has seen Sir Geoffrey Howe's minute of 28 March and, subject to the views of the other members of EX Committee, the Secretary of State for Defence and the Governor of the Bank of England, agrees with the proposed new operating guidelines for ECGD.

I am copying this letter to the Private Secretaries of members of EX Committee, the Secretary of State for Defence, the Governor of the Bank of England and Sir Robert Armstrong.

Yours ever

John Coles.

John Kerr, Esq.,
H. M. Treasury.

VK

CONFIDENTIAL

Trade
Non Tariff Barriers

Trade

N. B. P. R.

AR 31/3

FCS/83/67

SECRETARY OF STATE FOR TRADE

UN Convention as a Code of Conduct for Liner Conferences

1. Thank you for your letter of 23 March.

2. I agree that we need to consider carefully the dangers to our shipping interests you describe. This is a complex issue and we shall need to look both at the likely gains from the action open to us and at the implications for our relations with other countries. These are all aspects on which we need advice, and I agree that we should ask our officials and legal advisers to produce an early report.

3. I am copying this minute to the Prime Minister, members of 'E' Committee and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
31 March 1983

Trade,
Non-Tariff Barriers, pt 3

Prime Minister

spare copy

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

SECRETARY OF STATE FOR TRADE

ECONOMISTS' REPORT ON SUPPORT FOR CAPITAL GOODS FOR EXPORT

Since my minute of 13 December, with which I forwarded to the Prime Minister the agreed interdepartmental economists' report, we have had some useful exchanges on the arguments for and against export credit subsidies. In parallel, our officials have cooperated in working out new operating guidelines for ECGD, which I have now sent to the Prime Minister with my minute of 28 March.

2. These guidelines reflect a good deal of the thinking, and some of the specific suggestions, in the economists' report. The issue is an important one, and the existence of the report is already widely-known from slanted press reports. I believe that discussion between Government and industry would benefit from full exposure of the arguments. It can only be a matter of time before we are required to make the report available, eg to a Select Committee or to the committee of enquiry which you are proposing to set up into ECGD's future status. I think that we would do better to take the initiative, and publish it now. I hope you agree.

3. I do not envisage our giving the report any special publicity. It would be sufficient to lay a copy in the

/House of Commons

House of Commons Library and announce that fact in a written PQ. Obviously the announcement would need to make clear that the report was simply a background paper; we could also add such a disclaimer to all published copies.

5. I also think that it would be best not to publish paragraph 31 of the report, which is the only part of the report which contains policy recommendations. Without this paragraph the paper is a background to policy rather than advice to Ministers. Since it contains some calculations relating to particular projects, you may feel that it would also be right to remove Annex 1, or at least such information in it as would enable specific projects to be identified. I would welcome your advice on that.

4. Copies of this minute go to the Prime Minister, Patrick Jenkin, Francis Pym, and Sir Robert Armstrong.

G.H.
29 March 1983

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

CC RJ

(2)

Prime Minister

For information at this stage.

AR 25/3

From the Secretary of State

The Rt Hon Francis Pym MC MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1

23 March 1983

Dear Francis,

THE UNITED NATIONS CONVENTION ON A CODE OF CONDUCT FOR LINER CONFERENCES

As you know we are coming under EC pressure to accede to this Convention before UNCTAD VI, which starts on 6 June. I am concerned to ensure that when we do so we avoid weakening our ability to resist the increasing protectionist pressures to be found in international shipping.

BACKGROUND

The Government agreed to accede to this Convention within days of taking office. Our predecessors had carried matters too far to give us any real alternative to accepting the compromise that had been reached in the Community, now embodied in EC Regulation No 954/79.

This aims to concede the benefit of the Convention's protectionist cargo-sharing provisions to the developing countries' conference shipping lines, while preventing those provisions from restricting competition between conference lines from developed countries.

From the Secretary of State

We have now obtained the necessary domestic powers to implement the Convention, in the Merchant Shipping (Liner Conferences) Act 1982. But we are still without a solution to the crucial problem of how to prevent a foreign country continuing to enjoy the benefits of the Convention while forcing monopoly conditions on the liner shipping route between itself and the UK.

There are of course inherent policy difficulties in permitting shipping lines to form cartels (or "conferences"), but successive British governments have been content to exempt them from the Restrictive Trade Practices Acts, provided there is an unfettered opportunity for non-conference lines to offer alternative services.

THE PROBLEM

The difficulty that we face, more clearly now than in 1979, is that a number of developing countries are hostile towards competition in their liner trades and wish to deny non-conference lines the right to trade. This would have the effect of imposing a monopoly upon the conference carrying British exports and imports to and from those countries. We cannot accept this, our own shipping lines do not want it, and we clearly need to keep our hands free for any countermeasures that may be needed to deter it. However it is now clear that some developing countries' governments will seek to use the Convention itself as a pretext to exclude non-conference lines unilaterally from our trades. Indeed I think we must take it that most will do so if they see others getting away with it. Although the Convention does not endorse this, it does not prevent it either, and it could even restrict our ability to defend our interests.

Before we accede to the Convention we therefore have to find a way of effectively denying a developing country government the ability to impose a monopoly on the shipping of our trade while continuing to enjoy the benefit we extend to them under the Convention; and above all of ensuring that our own accession does not inhibit us in defending our interests if they seek to do so.

THE NEXT STEPS

Officials have been considering a number of possible solutions, but the position in international law is exceedingly complex, and the problem is now becoming pressing.

From the Secretary of State

I believe we now need urgent advice on the best way in which HMG can strengthen its hand in this matter and I would welcome your agreement to our commissioning an early joint report from our department's officials and legal advisers, with positive recommendations on the best way of securing our interests against the dangers I have described. I suggest this report should be made to us jointly by the middle of April.

I am copying this letter to the Prime Minister, our colleagues on E Committee, and to Sir Robert Armstrong.

Yours,
Arthur

LORD COCKFIELD

BF 31/3/83

Note

Treasury (Mr Lavey) will do their utmost to let us have a note from Chancellor about export credit either just before or just after Easter

MCS

CF/ bf appropriately

MCS
Vpeede

The attached guidance notes on presentation of trade policy are for the personal use of all Ministers, who should associate them with the earlier notes in this series.

TRADE POLICY GUIDANCE NOTES

1. Introduction

Britain depends upon the open trading system. She is more heavily dependent on overseas trade than most other major industrialised nations. Some six million jobs depend on our exports of goods and services.

The open trading system, at a time of virtual stagnation in world trade, is under increasing pressure. This reflects -

a. rising unemployment in all OECD countries;

b. the rapid emergence of the newly industrialising countries, providing high quality goods at low prices;

c. the possible departure of the Labour Party from the post-war consensus on the need to maintain a liberal trading regime;

d. the apparently unmanageable pace of change now required of certain British industries;

e. the increasing number of countries threatening to resort to protectionist measures;

f. the political and financial problems of trade with the Eastern bloc.

Our trade policy is likely to be judged by -

a. its impact on output and employment;

b. the extent to which it is seen to be either ideological or naive or pragmatic;

c. the degree to which the demands of certain industries are seen to be desirable or sensible;

d. the extent to which the EEC is seen to be helpful or not;

e. the manner in which it affects consumers and other industries as users of imported goods or as victims of retaliation;

f. the vigour and effectiveness of Government action against other countries' unfair trading practices and in pursuing Britain's interests through international channels;

g. its relationship to the Government's general economic and industrial policies.

This paper has three sections. The First examines current public perceptions, insofar as they are known; the second outlines the Government's trading policy and how it might be presented; the third offers comments on some current fallacies and misunderstandings about our trading policy.

2. Public Perceptions

The relative complexity of the arguments in favour of open trade and the Common Market puts the open trader at some disadvantage in political debate. With concrete industrial examples to allude to, the protectionist can always appeal to patriotism, pragmatism, practicalities and even compassion. These sentiments can, of course, also be invoked by the open trader, but he will not always be able to match the simple appeal of the protectionist promise to "save jobs".

Though poll data on trade is not extensive, some results indicate that the protectionist has a ready market for his views -

a. foreign imports are seen as one of the main causes of Britain's economic difficulties; few consider increased imports a result of our own economic failures; nearly one in two people favour import controls;[1]

b. the Common Market is generally judged to have been economically harmful; there is little appreciation of the increased export and employment opportunities it has offered;[2]

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1 Gallup poll, Daily Telegraph, 21 July 1980.
2 MORI polls, various 1977-82; Survey Research Associates, March 1979.

c. awareness of the importance of European markets is very limited; there is little realisation of how many jobs would be put at risk by withdrawal;[1]

d. the Common Market is held to be responsible for increased prices generally and increased food prices in particular; there is a concomitant belief that food would be cheaper outside the Community;[2]

e. the Common Market is held to have denied us trade with the Commonwealth and the rest of the world;[3]

f. foreign governments are widely believed to be more adept at protecting their own industries.

3. Presentation

a. Open and fair trade is more important to the United Kingdom than most other major industrialised countries.

b. Open and fair trade has clear, practical benefits for the United Kingdom.

c. As our largest export market the European Community is vital to British jobs and investment.

d. Competitiveness is the most important element in the United Kingdom's overall trading success.

e. The vigorous promotion of exports and inward investment by the Government has increased employment in the United Kingdom.

f. The Government is willing to protect certain vulnerable industries from sudden surges of imports, in order to allow some traditional industries time to adapt and restructure.

---

1 ORAC, July 1980 and March 1982; ORC February 1979.
2 MORI polls, various, 1977-82; ORC February 1979; ORAC March 1982
3 ORAC, February 1979 and March 1982.

g. The Government rejects the widespread use of import controls as ultimately counter-productive.

h. Government and EEC action against unfair trading practices abroad, such as those in France, has been very effective.

i. British exports of services are at record levels, and our national trading surplus is second only to that of the USA.

3.1. General Trade Philosophy

First, an open trading system is clearly in Britain's interest. Britain's exports are equivalent to about 20 per cent of GDP, which is a higher proportion than virtually any other major industrialised country. Our interest clearly lies in dismantling barriers rather than encouraging them by erecting our own. That is why the Government is pressing, through international channels, for the liberalisation of trade in services too.

Second, the Government does not blindly pursue a liberal trading policy for all industries in all circumstances. It is pragmatic and sensible - and permissible under Article XIX of the GATT - to protect industries that face serious damage from a surge of low-cost imports. It can give an industry time to re-equip and adapt to new market conditions.

Third, trade must be fair as well as free. That is why the Government has pressed and is pressing - in the GATT and through the European Community - for the opening up of certain markets abroad, notably Japan.

3.2. The Benefits of Open Trade

The broad economic case against protection is -

a. Open trade allows countries to specialise in those activities at which they are most productive.

b. This leads to higher output, lower prices and a higher standard of living.

c. Increased competition from imports stimulates efficiency, productivity and innovation in British industries.

d. By providing secure export markets open trade encourages companies to invest in new plant and products.

e. Free access to the European market encourages foreign companies to invest in Britain.

f. British manufacturers gain from free access to competitive, well-designed industrial components and supplies.

The city states of Hong Kong and Singapore, as open trading economies, clearly demonstrate these benefits.

3.3. The Disadvantages of Protection

Import controls

a. allow management to abandon the struggle to contain labour costs, improve their products and invest in new technology, so allowing industries to become mediocre and uncompetitive, leading to higher prices;

b. tend to protect jobs only temporarily; protection in the coal industry has not shielded it from world recession;

c. deny consumers a wider choice of imported and domestic goods;

d. can provoke retaliation, so only protecting jobs in some domestic industries at the expense of other export industries;

e. can temporarily aid one industry but penalise another; for example other industries can be denied access to the technology they need to remain competitive;

f. depress import demand and so drive up the exchange rate at the expense of export industries.

Governments reacted to the depression of the 1930s with tariffs and quotas. World trade plummeted. By contrast, the dismantling of those barriers to open trade after the war, under the GATT system, meant that by 1980 exports of manufactures[1] by the main industrial countries had grown tenfold since 1950.

4. Departures from the Open Trading System

Open trade is the litmus test of a country's economic efficiency. Where British products are uncompetitive this usually reflects the accumulated inefficiencies of the British economy, rather than the inequities of international trade agreements. Amongst these inefficiencies are relatively high inflation, strikes, restrictive practices and poorly designed products.

It follows that the most effective solution to the loss of markets is greater economic efficiency. Likewise the most effective solution for industries threatened by low cost imports is to improve their competitiveness or change their product.

Some protection has nevertheless to be provided for industries threatened by sharp surges of imports. Various forms of protection, consistent with our obligations under the GATT and the Treaty of Rome, operate in the clothing and textiles, consumer electronics, footwear, steel and motor car industries.

Some of these are voluntary restraint agreements (VRAs). These are preferable to import controls, since they are more flexible and less likely to provoke retaliation, or demands for compensation.

Anti-dumping procedures, which are appropriate in certain circumstances, are pursued with the utmost vigour. These are consistent with the policy of free but fair trade.

Protected British industries are listed below.

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1 In volume terms

4.1 Textiles and Clothing

Production and employment in the textile industry have been seriously damaged by low-cost imports. In 1980 imports of textiles and clothing totalled £1,545 million, £1,258 million more than in 1970. 150,000 jobs were shed in 1980-1981, and a further 17,000 in the first half of 1982, though not all these job losses are attributable to low-cost imports. Despite this, textiles and clothing are still a major employer, accounting for about a tenth of manufacturing employment. The industry is also still a major exporter - in 1980 the United Kingdom exported textiles to the value of £1,363 million, £945 million more than in 1970. Given its importance and vulnerability the Government has granted the industry a good deal of protection. Low-cost imports now account for only 12 per cent of the United Kingdom market and over nine-tenths of these are subject to actual or potential restraint under the Multi-Fibre Arrangement and related agreements. All are being renewed for the 1983-86 period, giving the industry more protection than any other in the United Kingdom.

4.2 Footwear

About half of all low-cost footwear imports are covered by measures of restraint, initiated by the Government or secured by the British Manufacturers' Federation (BFMF) with Government support.

4.3 Motor Cars

Regular discussions take place between the Society of Motor Manufacturers and Traders (SMMT) and the Japanese Automobile Manufacturers' Association (JAMA). The Japanese have voluntarily restrained their share of the United Kingdom car market to between 10 and 11 per cent in 1980 and 1981. It is expected to stay at that level in 1982.

4.4 Consumer Electronics

The Radio Industries Council (RIC) regularly meets its counterparts from Japan and a number of other Far Eastern industrialising countries, to discuss the United Kingdom market in consumer electronics. Various inter-industry arrangements covering imports from Singapore, South Korea, Thailand and Taiwan operate.

4.5 Steel

Since 1977 employment in the British Steel Corporation (BSC) has fallen from 208,000 to 90,000. Since 1979 BSC's manned capacity has fallen from 21 million tonnes to 14.4 million tonnes. Private sector installed capacity has fallen from 5 million tonnes to 4.4 million tonnes in the same period.

The social cost is high. Therefore the Government has secured, through anti-dumping action in the EEC, voluntary restraint arrangements (VRAs) on steel imports with 14 non-EEC countries. These cover about 70 per cent of United Kingdom steel imports from non-EEC countries. The VRA countries have agreed to certain restraints on volume and price in return for exemption from anti-dumping action. Where VRAs do not operate the provisions of the basic import price scheme apply.

Import penetration of the United Kingdom steel market is the lowest of all the EEC steel producers.

4.6 State Aids to Exports

Another departure from the open trading system is the increasing willingness of Governments to subsidise exports, especially of capital goods. This normally takes the form of "soft" finance for major projects in third countries. The devices used are vaious - aid programmes, mixed credits, government guarantees - but all distort the world market for major project business.

The Government have and will continue to argue against and resist such practices by supporting efforts within international organisations, such as the OECD, to monitor and discourage them. The Government is prepared, however, to use instruments such as the Aid and Trade Provision and ECGD's rapid matching facility to assist British companies to meet the competition on equal terms.

5. Trade Barriers Abroad

Open trade is good for all countries and the GATT system has stood up well to current pressures. In fact the present world tariff structure is largely the result of successive rounds of multilateral trade negotiations aimed at

reducing tariffs. The last was the Tokyo Round concluded in 1979, as a result of which tariffs are being reduced on a reciprocal basis between 1980 and 1988.

However, the GATT system has been placed under considerable strain during the current recession. Protectionist pressure has surfaced in all countries.

In its own interest, the United Kingdom is a relatively open market. Over four fifths (83 per cent) of visible imports in 1980 were admitted duty free; agricultural levies and various import restraints covered only 7 per cent of total imports or 11 per cent if only non-EEC imports are considered.

Some other markets are just as open. Among the Newly Industrialised Countries (NICs) Hong Kong and Singapore have completely open markets. NICs as a whole took 12 per cent of United Kingdom exports in 1980; the USA took 12.3 per cent of our exports in 1981; and the EEC countries now take over 40 per cent of our exports. This trade is extremely valuable to Britain. In 1980 the United Kingdom had a current account surplus of £2.9 billion; in 1981 it reached a record £6 billion and in 1982 it was probably £4 billion. The forecast for 1983 is for a £1 billion surplus. This is a substantial improvement on the £0.9 billion deficit of 1979. In 1981 the United Kingdom had a £4.9 billion surplus in manufactured goods with oil-exporting countries and a £2.3 billion surplus with other developing countries. However, in some markets British exporters are facing problems of access and high tariffs. These are listed below.

5.1 Japan

Japanese exports to Britain have doubled, in real terms, in the last four years. This has led to a serious and growing imbalance of trade - £1.13 billion in 1980: £1.58 billion in 1981 and £1.97 billion in 1982. This year the Japanese will probably sell us £2½ billion worth of goods; we will sell only £660 million to them.

Japan has scarcely opened up her market at all. In 1980, for example, British industry sold £1,896 million worth of aerospace products worldwide, but only £30 million worth to Japan. £132 million worth of vehicle components were sold to the USA and £218 million worth to Germany, but only £6 million worth to Japan.

Pressure via the EEC and the USA has resulted in two recent packages which have begun the process of opening up of the Japanese market, but more fundamental changes are required.

5.2 Spain

Trading relations with Spain are governed by the Spain/EEC Agreement, signed in 1970, before Britain joined the Community. Spain has consistently failed to observe it properly, notably by maintaining a discriminatory fiscal system and by administering quotas in an opaque way.

Spain's high tariff barriers against Community exports are legal under the Agreement but now unwarranted. Spanish industrial development since then - especially in areas like steel, ships and textiles, where Community countries have cut capacity - has made the Agreement increasingly one-sided. The British tariff on cars from Spain, for example, is 4.2 per cent; the Spanish tariff on cars from Britain is 36.7 per cent.

The problem will disappear in the longer term since Spain wishes to join the Community. Meanwhile Britain has asked the European Commission to report urgently on interim remedial action to bring about a fairer balance of trading opportunity.

5.3 France

Britain has made clear to France that she is not prepared to see her export trade damaged by some of the methods chosen by the French to "recapture the home market".

These methods were prompted by the prospect that Socialist economic policy would result in a FFr 100 billion trade deficit in 1982. They include excessive customs formalities for videos and discriminatory loans by nationalised banks.

These measures have been unanimously condemned by France's Community partners, and the European Commission is actively pursuing possible breaches of Community law.

5.4 The USA

When President Reagan announced the embargo on the export of technology for the Siberian gas pipeline, the Government took immediate action to protect British companies. Subsequent diplomatic moves, in conjunction with our EEC partners, secured the removal of the embargo.

More recently, the US steel industry's initiation of counteravailing and anti-dumping complaints against European steel imports used US trade law procedures to protect a recession-hit industry from imports. US official procedures for dealing with these cases, and the interpretation placed upon the concepts of subsidy and injury by the US authorities, caused very serious concern in Europe. Indeed, they were arguably inconsistent with US international obligations.

Though the British Government played a full role in the negotiations which led to the subsequent steel agreement, without the added influence of the EEC it would have been far less acceptable.

The Agreement established restrictions on access to the US market for a range of carbon steel products. A ceiling of 5.9 per cent market share in steel pipes and tubes for the US was also agreed. There remain outstanding countervailing and safeguard actions involving United Kingdom and other EEC exports to the USA of special steels.

5.5 Australia

Australia protects her industry with very high tariffs and quotas. The United Kingdom case against them is more difficult, because they are compatible with the GATT; we have a healthy trade surplus with Australia; and Australian objections to the protectionist Common Agricultural Policy are arguably very understandable.

5.6 Competition for Overseas Projects

One of the Government's declared objectives is to help United Kingdom exporters secure a greater share of major overseas project business. Several steps have been taken to support United Kingdom companies and contractors. These include the creation of the Projects and Export Policy Division at the

Department of Trade, which co-ordinates the assistance given to consultants and contractors pursuing large overseas projects. This has enabled increasing and more effective use to be made of financial support mechanisms such as the Overseas Projects Fund, the Aid and Trade Provision and ECGD facilities.

With this Government help British industry has achieved some notable successes over the past two years. Contracts won include a £550 million power station in Hong Kong by GEC; a £330 million Mexican steel mill by Davy-Loewy; a £250 million power station in India by NEI; a £200 million hydro-electric scheme in Indonesia by Balfour Beatty; a £250 million university in Oman by Cementation; a £195 million metro project in South Korea; a £170 million trans-pacific cable project by STC and a £100 million order in Zimbabwe for boilers by Babcock Power. In addition, contracts worth some £200 million of project business have been secured under a Memorandum of Understanding with Brazil signed by the Government in October 1981. Contracts worth a further £200 million are under negotiation. Altogether successes reported on projects in excess of £50 million have, since the first quarter of 1981, been worth almost £3 billion, of which more than £2 billion is United Kingdom content.

6. Misunderstandings and Fallacies

6.1 Import Controls Would Save Jobs

Only in the very short term. They would do nothing to eradicate the root cause of Britain's unemployment: a lack of competitiveness caused by low productivity and relatively high wage and price inflation. They would prop up declining industries at the expense of growth industries; reduce the incentives for management and labour to contain their costs; and raise prices and lower consumption. In the longer term, that would destroy jobs, not not protect them. We cannot raise quality and keep tight control over costs by opting out of the world market.

6.2 Temporary Import Controls Can Mitigate the Unpleasant Side-Effects of Industrial Change

This is true in certain instances (eg textiles) but it is implausible to argue that hospitalisation behind import controls can always give an industry time to recuperate. Only competition stimulates the innovation, efficiency and

productivity needed to survive. And temporary controls have a habit of becoming permanent.

6.3 Import Controls Will Help the Balance of Payments

This assertion rests upon the fallacious assumption that a country's standard of living is enhanced by an increase in exports and diminished by an increase in imports. In fact the purpose of exporting is to gain the foreign exchange to import what cannot be produced at home but is necessary to improve the standard of living. A country which exported its entire national production but imported nothing, for example, would be literally destitute. It is therefore natural that the United Kingdom will have trade deficits with some countries and trade surpluses with others. In general, the United Kingdom has deficits on trade in manufactured goods with developed countries and surpluses with developing countries.

6.4 Britain is Naive to Stick to GATT/EEC Trading Rules When Others Do Not

Free trade is good for all countries and the United Kingdom market is relatively open. However, the Government is pressing - in GATT and via EEC - for liberalisation of those markets where British exporters are at a disadvantage. Within the EEC remedies are available for breaches of the competition rules. These breaches frequently take the form of unnotified state aids. Such aids can be difficult to pinpoint. But the Commission has successfully prevented other Member States adopting a considerable number of state aids, once they have been notified, as being incompatible with the Treaty of Rome. Such aids have included, for example, differential relief for Italian employers' contributions to sickness insurance schemes, subsidy for soft drinks manufacture in Belgium, and for petrochemicals in the Netherlands.

6.5 The Government Does Not Give Enough Help to British Exporters

This is not true. Quite apart from the extensive facilities provided by the Export Credits Guarantee Department and spin-off benefits to exporters from the Government's overseas aid programme, the Government spends about £80 million a year to assist United Kingdom exporters - that is £1 for every £1,000 of exports of goods and services. This is spent on the official export services provided by the Department of Trade, together with the Commercial departments in United Kingdom Embassies and High Commissions and Consulates overseas,

which are administered by the British Overseas Trade Board. They include a wide range of market advice and specific services designed to help exporters however big or small.

6.6 Membership of the EEC has had an Adverse Effect on the Economy and Employment

Withdrawal, not membership, puts jobs at risk. The Community market took 37 per cent of British manufacturing exports in 1982. Withdrawal would put 2½ million jobs at risk, and deny us many more as investment from America, Japan and other non-EEC countries went elsewhere in the Community. Tariff-free access to the Community market of 270 million people is a powerful attraction to foreign investors. Britain now accounts for about half of the Japanese investment in the Community, and over a third of all US investment in the Community is in Britain. We would not have these jobs at all if we had been outside the Community. That investment depends upon unfettered trade within the Community. Internal EEC trade barriers - even mandatory levels of domestic content - would deter it, and deny us the jobs that result.

6.7 Withdrawal from the EEC Would Allow Britain to Revert to her Commonwealth and Other Traditional Markets

Wrong. With British entry into the EEC Commonwealth countries have diversified their trade and now account for less than 15 per cent of Britain's trade. Our current competitive position makes further inroads in North America unlikely; Latin America operates tough import controls; and the Eastern bloc absorbs only 3 per cent of British exports. The EEC accounts for over two fifths of Britain's trade; the Community would not negotiate a favourable trading arrangement if Britain withdrew.

6.8 The Decline of Manufacturing Means the Loss of Export Markets

Historically, Britain has been a net importer of food and raw materials and a net exporter of manufactured goods. Manufacturing is still very important: it provides 6 million jobs and a quarter of total output is exported. However, it is merely nostalgic to imagine that Britain should continue to manufacture and market particular products just because she always has. Vigorous efforts

are made instead to promote new products and services to replace the old. Our trade in services, for example, has grown dramatically. In the last decade all the main service sectors, except shipping, grew in real terms. Civil aviation (£2.4 billion in 1981) more than doubled; travel (£3 billion) rose by half; miscellaneous services (£5.2 billion) rose by two fifths. United Kingdom earnings from financial and consultancy services are greater than any other country in the world. Exports of services in 1981 totalled £17 billion - an increase of a fifth (in volume terms) in 1971. Between 1980 and 1981 Britain's invisible export earnings increased from £24 billion to over £26 billion.

6.9 Eastern Europe Floods the British Market with Shoddy Goods

Much of the trade with the Eastern bloc is in raw materials.

Many of their goods are uncompetitive in quality and so do not sell well, eg they have only 2 per cent of the British car market. Restraints on textile, footwear, pottery and steel imports operate; anti-dumping action has been taken in many cases.

6.10 Trade with the Eastern Bloc Shores up Communism

The USSR buys over £400 million a year of British goods and Eastern Europe a similar amount - which is about 2 per cent of British exports. Britain supplies about 1½ per cent of Soviet imports. This is an important market for some British businesses. The COCOM system is used to frustrate the Soviets acquiring strategically important technology. Credit and loans to the Eastern bloc are carefully vetted.

March 1983

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DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

CONFIDENTIAL

The Rt Hon Francis Pym MC MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

4 February 1983

Dear [illegible],

UNITED STATES TRADE CONTROLS: EXTRATERRITORIALITY

I am writing about our strategy to counter the United States claims to apply their controls on international trade and financial transactions extraterritorially.

In his despatch on "The Siberian Pipeline: Lessons for the Future", Sir Oliver Wright said:

> ".... when we see trouble brewing we .... must explain our concerns quickly and clearly to a wide audience .... We must not soft pedal as we .... have tended to do in the past .... we must be prepared to lobby loudly and informally and early in the process ....".

The need now arsies to put these principles into practice. The United States Export Administration Act, one of the principal United States domestic enabling powers, expires on 30 September and the renewal processes are starting in the United States Congress. Officials from our Departments, headed by one of my Deputy Secretaries and your Legal Adviser, have recently renewed discussions in Washington with senior officials in the Administration; and I have reviewed our strategy following their report.

Our first objective should be to have the revised United States Export Administration Act amended so as to remove the claim to extraterritorial jurisdiction. We must take all opportunities to put the arguments robustly to members of the United States Administration and of the Congress. I hope that colleagues will use any opportunity which presents itself for this: we will be glad to arrange for briefing.

CONFIDENTIAL

From the Secretary of State

CONFIDENTIAL

My officials are working with yours on a restatement of our position aimed to influence the renewal process in the Congress. We are urging other countries, both those affected last year by the Pipeline and others, such as Canada and Australia, who like us have a history of opposition to United States extra-territoriality, similarly to express their concerns. And we are encouraging representation from the European Community. Industry in the United States has strong concerns about the Act, particularly about the "trigger-happy" way in which this United States Administration and the previous one have resorted increasingly to using economic controls for foreign policy purposes; their concerns, while not identical to ours, overlap because subsidiaries of United States companies in our countries find it very troublesome to be caught between conflicting policies and laws.

A second objective is that the Administration should, as we have pressed them to do, remove the controls which now harm British companies which are United States subsidiaries: preventing or restricting trade with a number of countries (Cuba, Vietnam, Kampuchea, North Korea); and inhibiting their trade with the wealthy Arab countries, because of the United States regulations to counter the Arab Boycott. The complete failure by the United States side to respond in the recent talks to this practical request which we tabled fifteen months ago is a measure of their failure to tackle this matter with sufficient recognition of our objection to these intrustions on our sovereignty. I am pleased that you will be raising this with Vice President Bush. You will see that I have minuted the Prime Minister asking that she should herself underline our concern to him.

It is nonetheless apparent that there will be many voices in Washington, both in the Administration and in the Congress, against limiting the extraterritorial reach of the Export Administration Act. Moreover, this reach is also embodied in other United States statutes. During the coming weeks we need to establish that it is our purpose to resist any future extra-territorial exercise of these powers. Just as the United States may continue to make this claim of policy and law, so our policy and law rejects it. Unless and until we reach a better understanding on the matter, the use of the Protection of Trading Interests Act powers to resist United States encroachments needs to become the expected this.

We need to make it absolutely clear that we are no longer prepared to wait until the American Administration has inflicted damage on our companies, but that we will take measures in advance designed to head off such damage. We now need therefore to develop a more explicit statement of the counter-action we propose to take; and to put this to the United States at the time and in he way most likely to influence favourably the terms in which the United State Act is renewed. And if we fail to achieve

our objectives, and have to make use of the powers to protect our companies, the Administration and the Congress will have been fully forewarned.

I propose that we should decide now that, if the Export Administration Act (EEA) is not amended so that the powers cannot be applied extraterritorially, we should promptly make an Order under Section 1(1) of the PTI Act. This would specify that the extraterritorial application fo the EEA and other comparable United States laws and/or regulations made, or to be made, thereunder are damaging or would threaten to damage our trading interests. This could be accompanied by an Order under Section 1(2) of the Act, requiring persons carrying on business in the United Kingdom who are affected by such applications of the United States laws to notify me of this. At a later stage, we could proceed to a general Direction under Section 1(3), requiring such persons not to comply with the United States measures.

Such a Direction could be used in relation to existing United States measures of the kind I have referred to earlier which affect our trade, unless the Administration expresses itself willing to remove the extraterritorial aspects of these measures, as far as their discretion under statute permits.

I have also asked my officials to examine with yours whether it would be possible to make a general Direction under Section 1(3) in relation to future use of the United States enabling powers (both the EA Act and other similar powers) to apply controls to such companies. The great advantage of this would be that it would hold the line, legally and politically, in advance. Thus in a politically sensitive case, where we shared United States broad objectives but doubted or opposed their intention to employ economic sanctions, we would not face the choice between divisive objection and inaction in defence of our own interests.

I suggest that our officials should now make early recommendations on the best options to pursue; and the tactics and timing of conveying to the United States how we expect to proceed.

I am sending copies to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Defence, the Secretary of State for Industry, the Attorney General, other colleagues on OD and to Sir Robert Armstrong.

LORD COCKFIELD

Trade

Prime Minister (2)

MCS 4/2

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Lord Cockfield
Secretary of State for Trade

3 February 1983

Dear Arthur

EXPORT CREDIT CONSENSUS

In my letter of 12 January I suggested that we defer further discussion of the issues raised in our recent correspondence about export subsidies until we had received officials' proposals on new operating guidelines for ECGD and about criteria and priorities in the allocation of ATP funds.

Meanwhile there is another issue on which we need to take an early view. This is the line to be taken by the UK in the next round of negotiations within the EC and the OECD about the Export Credit Consensus. On past form the final Community negotiating mandate will not need to be settled before the April Finance Council, but there is a meeting at official level in Brussels on 17 February, when the Commission will be trying to establish the elements of a common Community position for the opening of negotiations within OECD in March.

As usual, the central issue will be agreement on the minimum level of interest rate below which participants will not be allowed to subsidise their exports. The present interest rate matrix ranges from 10% to 12.4%, with the lower rates being applicable to developing countries and the higher rates to developed countries (which now include the Soviet Union).

As a result of our recent correspondence we are both agreed on the objective of supporting multilateral action designed to reduce and, if possible, eliminate the widespread export subsidies. The fall in market interest rates since last year's Consensus rates were negotiated has had the welcome effect of reducing the level of susbidy implicit in the present interest rate matrix. In view of this, I would not want to argue in current circumstances that we should support a further increase in the matrix, if such a suggestion were to be made by the Americans. But I do see a good case for supporting the status quo. Increases in Consensus rates in 1981 and 1982 were negotiated only with great difficulty,

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and were several years overdue when they came. Frequent changes in Consensus rates are disruptive to the pattern of trade flows, and we should not allow ourselves to be stampeded by aggressive subsiders such as the French into instant reversal of these gains.

As against these arguments, I understand that at least half of our Community partners plus the Commission have declared in preliminary discussions in Brussels for some reduction in Consensus rates. Unless we could count on the Germans, who are never very reliable allies on these matters, we would have a bit of a battle on our hands in getting the Community to agree to support the status quo. Also, we would have to expect hostility from our own exporters, to whom the aim of policy on which we are agreed is unwelcome, since they will be concerned about widening differentials between present Consensus rates and those offered by low interest countries such as Germany and Japan.

With these considerations in mind, I would be prepared to consider if necessary in April whether we could support a modest general reduction in the matrix, in the light of the outlook for interest rate levels and relativities at that time. But I would be opposed to showing the UK hand at this stage. One important consideration I have in mind is that we might decide that our commercial and financial interests were best served by a combination of the present Consensus rates and an option for support at rates below the top of the Consensus matrix in currencies where market interest rates would justify this. Of course this depends crucially on the view one takes of the prospects for sterling interest rates ie of the chances that this approach would enable us to steal a competitive march on the French and other high interest rate countries.

For the present, therefore, I think our aim should be to try to keep the Community position as open as possible until after the initial OECD meetings. I have in mind here that reversing later a decision taken now to go for a reduction in rates would be an extremely difficult task. We could point out that the immediate outlook for interest rates is particularly uncertain, and there is no need for the Community to define its negotiating position on this issue before the final Consensus round in the second half of April.

I suggest therefore that at the meeting of 17 February we should say that we would support the status quo unless changes proposed involved a commitment to some suitable form of automaticity or semi-automaticity for fixing Consensus rates in future. Since the French are almost

/certain to

certain to oppose any move towards automaticity, the most likely outcome if we take this line is that the Community will have no clear position on interest rates for the opening Consensus discussions. We should then have kept our options open for April, when final decisions will have to be taken, and in the meanwhile we could not be accused, either within the Community or at home, of adopting an unreasonably hard line on the interest rate issue.

If you agree with this I suggest our officials should work out an agreed line on the sort of automaticity which we might be prepared to accept.

I am copying this letter to the recipients of the previous correspondence about support for capital goods exports.

GEOFFREY HOWE

CONFIDENTIAL

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon the Lord Cockfield
Secretary of State for Trade

12 January 1983

Dear Arthur

SUPPORT FOR CAPITAL GOODS EXPORTS

I was very interested to read your letter of 17 December about the report on export credit subsidies by a working group of economists, and about the underlying policy issues on export subsidies for capital goods. I have since seen Patrick Jenkin's letter of 11January and I noted last week-end that our debate is being carried on outside, as well as inside, Whitehall.

2. You agree that export subsidies may well be an inefficient method of assisting domestic industry and commerce, but you say that the real question is whether, even if these subsidies are inefficient, we can unilaterally withdraw the support we give to our capital goods exporters so long as other countries give them subsidies.

3. I think that in the first place this poses the question in far too black and white a form. The immediate question is not whether we give up all subsidies on exports or capital goods. It is whether we should always be striving to match the subsidies of our competitors, however excessive they may be and however uneconomic the resultant exports become. The issue is much more one of degree than of principle. Of course I agree with you that we should put all the weight we can behind multi-lateral action to reduce and eliminate export susbidies. But I do not see that as an alternative to using prudence and commonsense in our subsidy action. The right policy is to pursue both courses.

4. I think the tests we should apply to export subsidies are very similar to those we should apply to forms of protection. You are right in your letter when you link protection and export subsidies. But what I miss in your letter is the sense that export subsidies, like protectionist

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action, had better be administered not just on the basis ofmatching the actions of other countries in the interests of particular UK traders, but by reference to the UK national interest as a whole. There is no merit in matching the export subsidies of other countries, especially in their more extreme forms, if the net result of doing so is damaging to the UK economy. In fact in some cases recently we have gone ahead of others in the subsidy race. That tends to be the result of regarding this as a race which has to be won. But export subsidies do not come free. Generally speaking, they operate as a subsidy to LDCs and as a tax on the generality of British industry and commerce which is not benefiting from the subsidy. We come back to your point that export subsidies are an inefficient method of assisting domestic industry and commerce.

5. In fact, the widespread use of export subsidies, slanted towards the better off and newly industrialising developing countries, has certainly contributed to the current debt problems of many LDCs. The temptation to undertake major capital projects (some of them economic, but some not) financed by cheap export credit has been very great. Sometimes bank credit has been drawn in to help support the same projects. The result has been an addition to indebtedness which in important cases is now having to be rescheduled, whether the debt is official or private. The competition in export susbidies has added to the strains on the system. Of course unilateral UK withdrawal from the subsidy race would not cause the LDCs to stop over-reaching themselves - but a multilateral effort to slow the pace would not be an unmitigated disaster for them.

6. You suggest that although export subsidies are an inefficient method of assisting domestic industry and commerce, it may be wrong to compare the sort of job provided or preserved in the UK by export subsidies with jobs provided through job creation schemes. But the cost of saving or creating jobs by export subsidies does not compare well with the cost of saving or creating normal jobs in manufacturing or commerce through other forms of subsidy or (what is very much better) through the reduction of taxation.

7. I come back to the need for great moderation and care in giving export subsidies and for limiting the extent to which we set out to match regardless the subsidies of others. As you know, I have made proposals to help in this direction in my minute of 19 October to the Prime Minister, and I hope we can reach early agreement on guidelines to give effect to them. I understand that officials will shortly submit proposals on criteria

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for supporting overseas projects, as requested at E Committee in February, and I hope we can settle these criteria swiftly also.

8. Perhaps I could take this opportunity to join you in praise of your Projects and Export Policy Division. I am sure you are right that they perform an invaluable function in bringing the efforts of British exporters together on overseas contracts but I am sure you would agree that their function consists in helping British exporters to compete rather than in stimulating the British Government to compete on the level of export subsidies.

9. I agree with you that a meeting would be useful, but I suggest that we should first have before us the results of the work by officials on both guidelines and project criteria.

10. I am sending copies of this letter to the Prime Minister, the Foreign and Commonwealth Secretary, the Secretary of State for Industry and Sir Robert Armstrong.

GEOFFREY HOWE

CONFIDENTIAL

CF/ PPs pl MS 15/1 PA

10 DOWNING STREET

11 January 1982

John Kerr Esq
HM Treasury
Parliament Street
LONDON SW1

Dear John,

THE IMPORTS PANIC

Thank you for your letter of 4 January. I would be sorry if a couple of ellipses in my original note should have misled the Chancellor into descrying errors of fact or interpretation which were not there.

(a) What I was clearly referring to in Items 1 and 2 were imports of "finished consumer goods". Those, after all, are what consumers buy. According to the Department of Trade's figures, imports of finished consumer goods at present account for only 15.5% of total visible imports - ie less than one-fifth (my "etc" in Item 2 included capital goods, and I should have spelled this out). There was no factual error.

(b) The implied assumption that we ought, more or less, to have maintained our share of world trade throughout the post-War period suggests that other countries ought not to have entered the export business so vigorously. If the developed countries really believe in encouraging the NICs, then some of us at least must accept a reduction in our percentage share of world trade - though not in our sales volume.

The same goes for rising import penetration. Exports from developing countries or from war-damaged countries recovering from a low post-war base have to be sold somewhere.

(c) The reference to "our recent deficit in manufactured goods" refers to the brief period of deficit in the third quarter of last year which Mr Godley seized on with such zestful schadenfreude. Mr Macrae refers me to the Treasury's Economic Progress Report which does indeed put the whole matter in excellent perspective. In fact, I don't know what I would do without it.

(d) Seeing things in perspective is not, however, the same as complacency. We are all anxious about the supply side. My sole concern was that we should not let our proper anxieties lead us into an irrational - and ultimately self-defeating - panic about imports.

I am copying this letter to the recipients of my original note.

Yours ever
Ferdy

FERDINAND MOUNT

2

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

JF2391
Secretary of State for Industry

11 January 1983

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister
Patrick Jenkin argues the case for export support. The Chancellor will be holding a meeting to discuss this in the next three weeks - though it has not yet been fixed - and will report the outcome.
GR 12/1

Dear Chancellor

SUPPORT FOR CAPITAL GOODS EXPORTS

I am concerned that the report by economists, which you circulated with your minute of 13 December and on which Arthur Cockfield commented on 17 December, is so speculative that it does not present a realistic account of policy options. As it recognises, there are extremely wide margins for error in the assumptions underlying its analysis, and we need to be much surer of the likely consequences and how these will stand up to inevitable criticism by industry and Parliament if we are to change our approach.

2 The support for exports of capital goods referred to in the paper is applicable to a wide swathe of manufacturing industry: ranging from machine tools, computers, structural steel and fabrication, rail and public transportation systems, civil aviation equipment, defence sales, as well as discrete projects, and the full range of consultancy and financial services involved. Simply taking the export volume of these finished goods, and the spares and follow-on services that result from them, accounts for at least some 8% of UK exports, i.e 1.5-2% of GDP. To put this volume of manufacturing activity in jeopardy must be a high risk approach, particularly when any benefits of changing our approach held out by the report are no more than hypothetical.

3 Nor does the report recognise that export support is unique in only being paid when our companies have passed the test in the market of winning against international competitors on technology, product, price and entrepreneurial skill. It is therefore self-selecting in only being paid when our most viable

and competitive companies can beat their competitors. And it is precisely to these companies that we must look for the adoption of new technologies and processes, so that we do not lose our manufacturing capability - as has unfortunately already happened for a wide range of consumer goods - so opening the way to a new wave of import penetration when the domestic market for capital goods revives. Moreover there are a mass of sub-contractors, who rely upon British capital goods exports to establish their market.

4 The economists' concern about the particular forms of export support misses their essential character: ECGD interest make-up following directly from of our domestic interest-rate policies, and isthus entirely outside the control of companies pursuing exports. They have, indeed, with our encouragement, been strengthening their competitiveness and becoming more aggressive, and they would with some justice see any shift in policy on our part as perverse. The Aid/Trade Provision has been welcomed by industry and many Posts abroad as one of the most effective instruments to counter our competitors' soft financing techniques; but more especially it yields greater new UK exports for a given sum of aid than other elements of the Aid Programme.

5 My final point is that we are daily finding the OECD Consensus to be fallible, giving our competitors - even including the Germans and the US - opportunities to operate outside the constraints to which we scrupulously adhere. The international disciplines on mixed credit, in particular, are extremely weak. In these circumstances, unilateral disarmament in export credit matters would seem to be as objectionable as in other spheres. Rather, we should, whilst drawing full attention to the importance of strengthening international disciplines, be more aggressive in countering unfair practices by other countries. An enhanced and more flexible ATP provision would convince industry that they can pursue export business aggressively in the knowledge that where it is important to do so we can beat our competitors at their game.

6 To sum up, the report omits a full expose of the practical consequences of various options and their sensitivities. Far from reducing the assistance given to exporters, we should be ready to reinforce the support for our more successful companies. I would, however, not oppose some attempt to limit the scale of subsidy through multilateral negotiations as Arthur Cockfield has suggested. But I would be totally opposed to unilateral disarmament. That could do great harm to industry's export prospects.

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7 I am sending copies of this letter to the Prime Minister, Francis Pym, Michael Heseltine, (whose defence sales interests are also closely involved), Arthur Cockfield and Sir Robert Armstrong.

Yours sincerely

David Saunders

pp PATRICK JENKIN

(Approved by the Secretary of State and signed in his absence)

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

NBPM
MCS 7/1

Qa 06204

From: John Sparrow
CONFIDENTIAL

6 January 1983

Ferdinand Mount Esq
No 10 Policy Unit
Downing Street
S W 1

Dear Ferdy,

Thank you for sending me a copy of your note 23/12 on "The Imports Panic". I entirely support the course of action which you recommend.

I have also seen the note which John Kerr sent you on 4 TPM January. The key task is to reverse the longer term declining trend in our share of world export markets, which can only be done by increased competitiveness and greater initiative on the part of our exporters and by breaking down other countries' barriers to our goods and services. As you yourself point out, rising import penetration is a reflection of increasing wealth and it only becomes a problem if we lack the wherewithal to pay our import bills. There is nothing intrinsically wrong with importing finished manufactures, provided that we can afford them and that they are not merely a reflection of our own failure to produce effectively. In this sense, the imports panic is concerned with the symptoms and not with the disease.

Every individual, company and country will buy more as it grows more wealthy; what we have to do is to make sure that we are wealthy enough to afford the standard of living that we aspire to. And it is to our advantage if higher imports (including finished manufactures) increase world trade and the purchasing power of countries for our exports, goods and services, in areas where we are or should be competitive.

Copies go to the recipients of your original note.

Yours sincerely,

John

John Sparrow

Trade:

Non-Tariff barriers

Prime Minister

(2)

CONFIDENTIAL

23 December 1982

Mrs 23/12

PRIME MINISTER

THE IMPORTS PANIC

The Christmas boom in the shops has brought with it a revival of the panic that extra consumer demand will now be swallowed up by imports. This panic has now reached extravagant heights with the assertion that 100% of any increase in demand is likely to be taken up by foreign goods.

The great political danger if we encourage this panic by too much concentration on the foreign threat is that we shall be driven into a corner from where there is only one logical exit: withdrawal from the European Communities.

It is important to restore a sense of proportion and a positive spirit if we are to continue to improve industrial confidence.

The following points are surely worth getting across to the public in speeches and press briefings for 1983:

1. Imports, even of finished consumer goods, are still lower than the third quarter of last year, although they did rise sharply in the third quarter of this year.

2. More than four-fifths of British imports are in raw materials, semi-manufactures etc (and have been for years). You can't have a revival in industrial production without having an import revival first.

3. World trade has grown hugely over the past 30 years. British exports have participated in that growth. Some increase in import penetration is a consequence of affluence and consumer choice.

4. Even foreign goods have to be distributed by British distributors and sold by British shopkeepers. There are thousands of jobs at stake in those sectors too.

5. We are self-sufficient in oil. We are 75% self-sufficient in temperate foodstuffs. This is a transformation from the raw-material-hungry Britain of our parents and grandparents; and it is a transformation which is reflected in our balance of payments position.

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/Yet Wynne Godley's

Yet Wynne Godley's chief worry about our recent deficit in manufactured goods was that we should "no longer be able to feed ourselves".

6. Yes, we are disturbed by that deficit. And we intend to recapture both those markets which we have lost because we have failed to compete on price, design and delivery; and those new markets which are just opening up. That is why we have backed British Leyland and British Steel. Hence, IT Year etc.

But we intend to compete in a positive spirit - offering better goods and services to the world, not trying to exclude foreign goods for fear that we cannot compete.

7. None of this is intended to rule out VRAs with Japan and Spain - and any other measures against dumping and unfair competition which may be necessary. But VRAs cannot be a policy, least of all for a nation which lives by international trade.

I am sending a copy of this note to Lord Cockfield, the Chancellor of the Exchequer, Patrick Jenkin and John Sparrow.

FERDINAND MOUNT

10 DOWNING STREET

From the Private Secretary

21 December 1982

Trade with Spain

The Prime Minister was grateful for your letter of 15 December describing in detail our current trading problems with Spain and the initiatives which we have taken.

A. J. COLES

John Rhodes Esq
Department of Trade.

NR

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

CP
MCS
4/1/83

Prime Minister (2)

The Chancellor is holding a meeting to discuss this and his minute (attached). He will report the outcome to you.

MCS 23/12

From the Secretary of State

CONFIDENTIAL

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3HE

17 December 1982

Dear Chancellor,

SUPPORT FOR CAPITAL GOODS EXPORTS

I have seen a copy of the report prepared by a working group of economists circulated to you and Mr Jenkin on 3 December. The report affects areas for which each of us has responsibility, and I think a meeting would be helpful.

I agree that export subsidies may well be an inefficient method of assisting domestic industry and commerce. But the real question posed by this latest analysis is whether it makes sense politically for the UK, with its heavy dependence on trade, unilaterally to withdraw the support we give our capital goods exporters. The alternative would be to put our weight behind multilateral action designed to reduce and, if possible, eliminate the widespread export subsidies.

The latter option is the sensible response. Present high unemployment and uncertain prospects for the recovery of world trade is no time to justify unilateral action. Indeed any multilateral move must be made with confidence that our exporters are not disadvantaged. In trade policy generally we have moved towards a more aggressive posture, refusing to see our own traders placed at a disadvantage by the protectionist moves of others. It would be inconsistent with this policy effectively to discriminate against capital goods exports by refusing to protect them against the subsidy practices, however undesirable adopted by others.

The creation of the Projects and Export Policy Division in my Department in 1980 has on many occasions been the subject of self-congratulation by the Government and has earned us well-deserved praise from industry and commerce. The success of PEP has been measured by its ability to knit together the facilities available

through a variety of schemes set up for a number of different purposes and thereby to help UK firms win valuable overseas contracts.

If we are to ensure that UK exporters enjoy support comparable to that which their competitors receive, then we have to make use of such instruments as are available to us however crude they may seem to be. In the export field the international rules effectively debar us from more cost-effective approaches to beating other people's efforts to secure, with some subsidy support, market share at our industry's expense. Even in the field of credit mixte, to which the UK was a relatively late and essentially unwilling convert, we are obliged by international convention to subsidise to a far greater extent (the 25% minimum grant element) than the needs of any particular situation strictly demand.

The primary purpose of the ATP as part of the aid budget remains developmental. The industrial and commercial benefits are secondary. But for each £1 in the aid budget each benefits are several times greater than straight bilaterial aid. If one is to going to provide money by way of aid, surely it is better to provide it in a way that brings benefit back directly to the United Kingdom. If of course the real objective underlying your criticism of ATP is to reduce the size of the aid programme, that is a different matter and one which raises very wide issues.

Fixed rate interest support for capital goods exports was provided not as an instrument of industrial or employment policy. Its high cost resulted from the fact that domestic interest rates and market rates in many other countries shifted sharply out of line from the fixed rates established under the OECD Consensus. We could have obliged our potential customers overseas to pay UK market rates of interest for the privilege of buying British goods. But we would not have won many orders.

The arguments for ATP as a means of spending funds from any given size of aid budget have been given less than their due weight. Furthermore some of the arguments adduced by the group of economists against our present policy and practice are overstated. Comparision is made between the incidental but real employment benefits flowing from the provision of export assistance on the one hand, and the cost of specific employment measures on the other. This produces some figures which on the face of it are worrying, but I wonder whether the assumptions are sound and whether like is really being compared with like. Can

From the Secretary of State

we, for example, reasonably equate the sort of job provided (and probably preserved) in basically competitive sectors with the sort of job created through schemes expressly designed to keep people off the unemployment register?. We cannot ignore the fact that successful economies like Japan and Germany appear to believe that capital exports have value and that it is worth special financial measures to secure market share for them.

Others who have an interest in these questions and who have considered them in the past (eg. NEDC and the British Overseas Trade Board) may have views. But I am sure the right response is for us to go down the multilateral route, choosing our timing with care and watching that we do not weaken the position of our capital goods exporters in the hard struggle for overseas orders.

I am sending copies of this letter to the Prime Minister and the Secretary of State for Industry.

Yours sincerely,

LORD COCKFIELD

approved by the Secretary of State and signed in his absence

Trade

(2)

Prime Minister

A.J.C. 20/12.

FCS/82/211

MINISTER FOR TRADE

GATT Ministerial Meeting

1. Thank you for your letter of 6 December. The GATT Ministerial clearly represented a considerable feat of endurance. It was, I think, important for the UK to have been represented throughout at Ministerial level along with the US and the other 'heavyweights' in the Community. I note the kind things you have to say about the performance of the official team. I shall ensure that Peter Marshall and his staff at UKMIS Geneva are made aware of your generous tribute.

2. If I may say so, I think you are to be complimented for the skill with which you played the UK hand. I have been particularly impressed by the obviously genuine expressions of appreciation for the British role which we have had from the Americans and Germans. Your task was far from being an easy one, given, in particular, the UK position as a committed Member of the Community but, nonetheless, one known to have reservations about important aspects of the current operation of the CAP. In the circumstances your informal contacts with the Commonwealth - both developed and developing - and with Brock and Lambsdorff were clearly instrumental in ensuring that the UK emerged from a rather messy negotiation with a significantly better mark than the bare pass which the Americans awarded the meeting as a whole. It is unhelpful

/that the

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that the Ministerial should have provided the developing countries with an opportunity to bring more of the working methods of UNCTAD into the GATT. This suggests we should perhaps adopt a 'wait and see' attitude to the possibility of another Ministerial meeting.

3. On the substance of the outcome I can only endorse your assessment. Objectively, it was about as good as anyone could reasonably have expected. It may not do much to help the US Administration resist growing protectionist pressures in Congress. But it should not do anything to weaken their hand either. Given the over-ambitious objectives they set initially, this in itself should perhaps be seen as something of an achievement. The fact that it did, eventually, prove possible for them to secure an agreement on services was obviously a factor of capital importance. Here again, I understand you played a key role in resisting French obstructiveness and ensuring that the Commission retained a mandate from the Council which enabled them to give the US some useful support.

4. I am copying this letter to the Prime Minister, to Members of OD(E) and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
17 December, 1982

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

(2)

Prime Minister

To note.

MT 16.12

From the Secretary of State

CONFIDENTIAL

John Coles Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

15 December 1982

Dear John

TRADE WITH SPAIN

I understand that on the 'plane to the European Council in Copenhagen the Prime Minister expressed interest in the separate elements of our problems with Spain and the initiatives which we have taken.

Briefly, there are three matters:-

i Breaches in Spain's implementation of the 1970 Agreement;

ii Tariff disparities where Spain is within her treaty rights but which are the heart of our grievance;

iii Tariff transition arrangements post-accession given those disparities.

We have been following up all these points both in Brussels and Community capitals. Notes (attached at Annexes A and B) were circulated by Sir Michael Butler in Brussels on 18 November; a more detailed dossier of our complaints on Spanish breaches has been handed to the Commission; and following strong statements in the Foreign Affairs Council's meetings in November and on 13 December, it has been agreed that the Commission should hold discussions with the Spanish government on the first two points and report back to the January meeting of the Council. The question of the Community's negotiating position on the third point is less immediate.

Implementation of the 1970 Agreement

The dossier of the United Kingdom's complaints focuses on:-

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From the Secretary of State

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a Fiscal measures

We believe that although there have been improvements, Spain's tax regime discriminates against imports and subsidises exports. Because it is based on the system of a cascade tax, conclusive proof is particularly difficult to come by. We are asking the Commission to take up the position on specific products where there seems to be prima facie evidence.

b Administration of quotas

Many quotas are opened late, or not announced at all; the period allowed for licence applications is often inadequate; the allocation of licences tends to favour existing suppliers and discriminate against newcomers; where imports are freely allowed despite the existence of quotas there is no guarantee that similar freedom will be allowed in subsequent years. All this creates uncertainty for firms wishing to sell in Spain and has prevented a number of United Kingdom companies from getting into the market.

c Disruptive imports from Spain - particularly in sensitive sectors such as steel and textiles where other Member States share our concern about the continued expansion of Spanish productive capacity and of Spanish exports and where Spain's observance of agreed restraint arrangements has been unreliable.

It was agreed at the December Council that the Commission would take these matters up with Spain and we believe that other Member countries will be adding to the Commission's dossier.

Tariff Disparities

At the time when the 1970 Agreement was concluded, Spain's protective tariff for manufactures was many times that of the Community's external tariff. Despite this, in recognition of Spain's relatively unsophisticated economy at that time, the Community agreed initially to make very much deeper cuts to accord preferential access to Spain than those extracted in return. The intended re-negotiation never took place because the Community was unwilling to offer reduction in its protection of agriculture, demanded by Spain as counterpart, in advance of Spain's accession to the Community. Originally it had been expected that the negotiations would take place in the second half of the 1970s. Twelve years later, those disparities remain and have now become anachronistic with the impressive and

From the Secretary of State

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competitive expansion of some of the industries concerned, particularly cars. The Commission acknowledge this and following the Prime Minister's exchanges with Commissioner Davignon went so far in their statement to the December Council as to indicate their readiness to see what could be done in the car sector. But they made it clear they would rather tackle the car manufacturers or receive an application for safeguard action than try to do anything about the tariff disparities, either generally or in particular. They argue that changes in the tariffs would involve re-negotiation of the Agreement. Lobbying in other Member States before the Council (and their attitude at the Council itself) showed little interest in immediate action on tariffs. This is partly because of the link with the accession negotiations and agriculture concessions, and partly because it would work against the interest of their firms with manufacturing operations in Spain. Nonetheless, under strong pressure from the Minister for Trade, who was at the Council, the Commission undertook to couple their discussions on breaches of the 1970 Agreement with representations about the difficulties created by the tariff disparities.

Quite separately, the Department of Trade has two other initiatives in train. First, my Secretary of State has put the political position clearly to the United Kingdom management of Ford and General Motors and urged upon them their interest in urging the Spanish government to take unilateral action to reduce their automotive tariff and particularly to maximise their own output in the United Kingdom (including component offtake). The response has been cautious but not unsympathetic. Second. my Secretary of State will propose at E Committee that we should respond positively to a proposal by the Spanish Foreign Secretary to Mr Pym and separately to Mr Rees that senior officials should visit Madrid for urgent talks about the car problem.

The alternative route of getting Community support for action to restrict imports from Spain is not promising. Other Community markets take as many or more car imports from Spain than we do; other Community producers are more competitive than BL in the Spanish market; and some already produce there (Renault and Peugeot both have major plants in Spain and Volkswagon have close links with SEAT). Ford are about to switch imports of Fiestas from Valencia to Cologne so until GM's Corsa is launched in mid-summer, there may be a significant fall in the number of cars exported to this country from Spain. But, of course, the switch does not really help us.

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From the Secretary of State

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Tariff Arrangements Post-Accession

The basis of our proposal in Annex B is that an extension of the three year transition period already formally proposed by the Community should be subject to:-

a a shorter transition period for products where Spain is already strongly competitive;

b A ceiling on the level of Spanish-based duties atthe start of the action period designed to tackle some of the more startling tariff disparities.

The French and Italians support this approach; other Member States are either non-committal or have pointed to the link with transition arrangements in other fields such as agriculture and movement of labour. The Commission have undertaken to take account of our views in preparing their mandate though they see little point in trying to make further progress on this until the picture on agriculture is clearer. As we have emphasised, this makes it all the more urgent to take action on the 1970 Agreement and the tariff disparities.

Yours sincerely,

JOHN RHODES
Private Secretary

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ANNEX A

SPAIN: COMMUNITY ACTION UNDER THE 1970 AGREEMENT

1. The United Kingdom has had repeated occasion (most recently in COREPER on 21 October) to draw attention to Spanish breaches of the 1970 Agreement between Spain and the EEC. Repeated representations over many years, by the Commission and by Member States, have not prevented the continuance of arbitrary administration of Spanish quotas and discrimination in the taxation system and commercial legislation. The Agreement has afforded much greater advantage to Spain than to the Community; the Community cannot afford to take lightly infringements by a partner who now aspires to share with the existing Member States the mutual obligations of the Community Treaties themselves.

2. In order that European business circles may be satisfied that an adequate solution to this problem is to be found at the Community level, the United Kingdom requests the Commission to make an urgent report on the action it proposes could be taken under the terms of the 1970 Agreement. This report should make particular reference to Articles 9(1) (anti-dumping), 9(2) (countervailing) and 11(2) (safeguard measures). It should have particular regard to the difficulties caused for Community industries already under heavy

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strain (such as the vehicle and associated industries in the UK) by imports from factories that owe their location in Spain to the 1970 Agreement and are required by Spanish legislation to export the bulk of their production while enjoying heavy protection in the Spanish market itself.

CONFIDENTIAL ANNEX B

SPAIN: CUSTOMS UNION AND EXTERNAL RELATIONS:
TARIFF TRANSITION

1. Although many detailed aspects of the Customs Union Chapter of the negotiations with Spain (have now been) settled at the meeting of the Negotiating Conference on 25 October, the tariff transition arrangements have still to be determined. As the Prime Minister stated in her letter of 5 August 1982 to President Thorn the United Kingdom continues to set store by the expectation that the accession of Spain will be followed, after only a short transition period, by the termination of the imbalance in trading conditions inherent in the Community's 1970 Trade Agreement with that country.

2. The Spanish delegation has requested a tariff transition period 'as close as possible to the 10-year limit without exceeding that limit' (a). The Community delegation has proposed a period of three years (b). COREPER has held some discussion (on 10 June 1982) of

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(a) CONF-E/14/82, page 24 and CONF-E/39/82, page 4

(b) CONF-E/50/82, page 3

(c) T/TAS/106, page 9

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conditions on which a period longer than three years might be acceptable. The United Kingdom has stated that in its view such conditions must include ecretement of the Spanish tariff. The Commission had proposed a horizontal ecretement such that no Spanish basic duty would exceed 28% (c). The United Kingdom considers that that would be a wholly inadequate measure of ecretement.

3. There are many important items in which, thanks in large part to the 1970 Agreement, Spanish exports are already strongly competitive internationally. Thus Spain exports successfully more than half her production of ships and cars, about half her output of car components, over a third of her iron and steel production and a significant proportion of her textile, clothing and footwear output. Community countries, meanwhile, have been contracting these and other sectors at considerable economic and social cost. There can be no justification for a further long tariff transition period for such items.

4. The United Kingdom would consider the following provisions appropriate for a general tariff transition period of more than three years:

(a) a short period must be retained for selected items. Annex G to the Stockholm Convention

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provided that Portugal would reduce her tariff against her EFTA partners faster for items of which she had exporting 15% of her production. In view of the relatively far weaker situation of Portugal the Community should certainly accept, if anything, more stringent a criterion vis-a-vis Spain in the current negotiations; and

(b) the flow of trade between the Community and Spain depends not only on the absolute height of the Spanish tariff but on the difference between corresponding Spanish and Community duties. This difference is in many cases unacceptably high. Accordingly the United Kingdom favours applying ecretement to the Spanish tariff differentially: for no item should the difference between the Spanish and Community basic duties exceed a set number of percentage points. The present difference was accepted in the 1970 Agreement only because it was confidently expected to be a transitional regime.

5. The same principles should be applied in the External Relations Chapter of the negotiations to the alignment of the Spanish tariff on the common customs tariff.

Trade

15 December 1982

Policy Unit

PRIME MINISTER

I. TRADE POLICY

The suggestions from the Department of Trade seem to us to be disingenuous, ill-thought-out and, if followed up, likely to prove counter-productive. They might well serve to prolong depression and weaken Britain's trading position.

Alan Walters points out that the measures do not correspond to the conclusion of the last meeting that "a generally open trading system was in the United Kingdom's interests", since for the most part they are concerned with negotiating Voluntary Restraint Agreements (VRAs) with other countries to protect our own industries.

We risk genuine retaliation in return for puny or phoney gains, particularly with trigger-happy NICs.

Alan also points out that

> ". . . the measures directed against countries such as Korea and Brazil are particularly inappropriate. Brazil has one of the biggest debt problems in the world, rivalling that of Mexico. The only way she can pay her debts is to export and export again and again. If she is not allowed to export those goods in which she has a relative advantage (surely shoes are one) then she will have not merely an incentive, but also some moral right in repudiating her debts. In fact it is unlikely that there will be an outright default; what will happen is we will give them the money in order to pay off their debts, instead of allowing them to earn the money by exporting".

We are a major trading nation. In fact, we are the major trading nation, as far as proportion of GNP exported goes. If we are seen to be taking the lead in an EC move towards protection, we shall be doing ourselves down. Surely one of our reasons for joining the EC was to make it more outward-looking.

Japan

i. Even if we do not try to frustrate the Commission proposals, we should be aware that they will do us very little good. What do we gain from pressing for an EC VRA on video recorders in order to protect Grundig

and Philips (our own Thorn/JVC product being unready and having a low UK content)? On motorcycles, cameras and all the principal finished manufactures imported from Japan except cars, we are defending a vacuum - as the DT itself recognises in the Official Note, 22C(iii) - which destroys the case for 22(a), which urges us to "support the Commission in toughening the Community's policy towards Japan".

In the case of Japanese cars, we already have our own VRA. And the real problem now is not Toyota, but the Fiesta and the Corsa.

ii. A VRA on machine tools and fork-lift trucks may do little harm. To improve the price and quality of our own products would be a more valuable effort.

iii. The Nissan project should continue to be welcomed.

Spain

Here the DT has got the question the right way round. We should seek improved access to her market, rather than seeking to exclude Spanish cars.

We also have every right to expect Ford and Vauxhall to help. They receive considerable Government grants (eg for Ford-Bridgend) in return for creating or maintaining employment. This implied bargain carries with it certain responsibilities. It's up to them to make sure that cars are produced as cheaply in Dagenham as in Belgium.

Newly-Industrialised Countries

We dissent strongly from both (i) and (ii). In fact, it is hard to think of more half-baked proposals.

The eight NICs listed in Annex A of the DT note, taken together, had a very modest surplus of £190m on trade with the UK last year, less than 5% of the total trade. In the first 8 months of this year, Britain had an even smaller deficit on visible trade with the eight NICs of £27m.

Their penetration represents less than 10% of the UK market in the case of almost all products. The major exceptions: 61% of umbrellas sold in Britain come from Taiwan; 60% of stainless steel tableware comes from Korea.

Is it worth sabotaging our commitment to free trade for that? Do we want to keep out Brazilian shoes in order to assist the Italian shoemakers?

Cars

Again, we dissent strongly from both (i) and (ii).

Imports from Australia, Romania, Poland, the USSR and Czechoslovakia are tiny (less than 3% of the British market). Is it worth risking retaliation and encouraging protectionist tendencies within the EC (which will hurt us most) for such a minuscule gain?

Conclusion

This is utterly wrong. It would be much better to point out vigorously what we have already achieved in the restraint of imports of textiles, footwear and cars. A major new and unmistakably protectionist initiative by the EC can only help to depress world trade further - and that means depressing Britain most.

II. IMPORT ADVISORY BOARD

Arthur Cockfield's separate paper proposing an Import Advisory Board is equally wrong-headed.

1. It would be another quango.

2. The Department of Trade ought to be its own Import Advisory Board. As we know from experience, setting up this sort of quango never succeeds in "deflecting uninformed attacks on government" - it merely provokes a new kind of criticism: "What are all your idle bureaucrats doing while my business is being ruined by the Japanese? Why don't you give your Board some teeth?"

3. It would give rise to expectations of import controls which it would be unable to fulfil. And to the outside world, it would advertise that Britain had been converted to protection. The consequences would be calamitous.

4. A far better alternative would be to give greater prominence to the Department's Anti-Dumping Branch.

FM

FERDINAND MOUNT

Tg 01543

PRIME MINISTER

MT

E Committee

Item 1: Trade Policy

(E(82)77 and 78)

ATTENDANCE

1. In addition to E Committee members, the Lord Chancellor and the Attorney-General have been invited.

BACKGROUND

2. E(82)22nd Meeting on 28 October agreed that a genuinely open trading system was in the United Kingdom's interest, but that there were certain practical problems, particularly with Japan and Spain. It agreed that officials should examine options for action to secure better opportunities for British exports in the face of protectionist trade policies. Papers by officials on the cases of these two countries and the related issues of newly industrialising countries (NICs) and of car imports have been circulated as E(82)78.

3. In E(82)77 the Secretary of State for Trade notes that while the GATT Ministerial Meeting agreed to studies which will be helpful in the longer term there is no immediate prospect of GATT action to deal with discriminatory trade practices. To avoid upsetting the fragile basis on which the open trading system rests, the best hope lies in applying determined and consistent pressure by EC countries acting together, preferably in concert with the United States. The Community attitude has firmed up but if this approach did not achieve significant results, the UK would need to consider what might be achieved on our own. Lord Cockfield recommends that he should be authorised to pursue a range of proposals and report back to colleagues if they do not make reasonable progress by the spring.

4. His proposals are -

a. Japan: to support the Commission in pursuing the Community's complaint under Article XXIII(2) of the GATT and to try and bring the United States in, to seek an early conclusion to our bilateral negotiations for voluntary restraint arrangements (VRAs) on machine tools and fork lift trucks while supporting Community-wide VRAs in sensitive sectors, and to keep pressing for the Nissan investment in the UK.

b. Spain: to pursue our Community initiative for reducing the tariff imbalance on industrial goods and to secure better implementation of the EC/Spain Trade Agreement of 1970, and to see what Ford and Vauxhall can do to help to reduce car imports.

c. NICs: to urge a tougher approach on the Community, with a view to phasing out GSP benefits if NICs do not reduce tariff barriers, and to seek VRAs with Taiwan, Korea and Brazil in sensitive areas not yet covered.

d. Cars from 3rd Countries: to impose prior surveillance licensing on Australian and Eastern Bloc imports, and to review our type approval requirements.

5. E(82)77 was written before the Foreign Affairs Council (FAC) on 13 December which took a number of helpful decisions in these areas. In particular

i. On Japan, the Council agreed that the Community should now take action under Article XXIII(2) of the GATT to get its complaints considered by a Working Party of the Contracting Parties; should pursue vigorously its specific requests for further opening of the Japanese market; should reinforce its pressure for effective restraint on sensitive Japanese exports to the Community (which could include specific voluntary restraint arrangements) and report back in January 1983; and should extend its surveillance measures

in the New Year to motor-cycles, video tape recorders and light commercial vehicles.

ii. On Spain, the Commission will approach Spain for improvements in Spanish implementation of the 1970 EC/Spain Agreement. On the tariff imbalance, the Commission will hold talks with the UK car industry, and report back to the January Council. The UK's pressure has also clearly worried the Spaniards, since the Spanish Foreign Minister proposed to the Minister for Trade bilateral UK/Spanish contacts on the trade issue before Christmas.

iii. On the Multi-Fibre Arrangement (MFA), the Commission reported the successful conclusion of the bilateral negotiations with textile importers and the Council agreed that the Community should remain within the MFA. After very tough negotiations this secures the position of the UK textile industry for the next four years. It is doubtful whether member states acting alone could have secured a better result.

On both Japan and Spain, your own letter to M Thorn of 10 December emphasised to the Commission the importance we attach to early action.

MAIN ISSUES

6. The main issues for discussion are

1 Whether to adopt the Secretary of State's proposals;

2 Whether any further action needs to be taken or investigated;

3 How the Committee's decisions should be presented publicly.

PROPOSALS

7. On Japan, a substantial move on the first proposal has been made by the FAC's decision to move to GATT Article XXIII(2), though it would clearly be useful if the United States would associate itself with the

action. The fact that the Commission is to report in January on its further talks with Japan fits in with the two month deadline in your letter to Mr Thorn for the Commission to find solutions to the problems of Japanese import penetration. While this and the Commission's new tougher attitude and willingness to contemplate Community-wide VRAs is encouraging, the Committee may agree with the Trade Secretary that we should quickly conclude the bilateral VRAs on machine tools and fork lift trucks and maintain our pressure for the Nissan project. In this connection experience has shewn that our willingness to contemplate import restraints can be a major factor in Japanese investment decisions. The Committee may therefore also agree that we should keep in mind as a potential source of leverage the possibility of selective import restrictions under the Anglo-Japanese Trade Treaty or Community Regulation 288/82, though the need to obtain Community approval and Japan's right under GATT rules to retaliate may mean that this is more useful as a deterrent than a practical measure.

8. On Spain, the Commission's agreement to pursue the need to improve the implementation of the 1970 Agreement is helpful, but they are clearly less willing to act decisively on the tariff imbalance. Progress on both is dependent on Community support, but there is a clear need to keep up the pressure on the Commission if we are to get improved access to the Spanish market. The Secretary of State will be able to report on his talks with Ford and Vauxhall on 13/14 December about what they can do to help restrain car imports. It may well be necessary here to keep up commercial pressure in Madrid. A new and positive element is the apparent willingness of the new Spanish Government to have bilateral talks. The Committee will no doubt agree that these should be pursued at the earliest possible opportunity without cutting across the Commission's contacts.

9. On the NICs, any action to phase out GSP benefits is likely to be a long task and the best chance will probably come if the GATT study of North/South trade leads to negotiations. We can urge the study along, but can achieve little with the NICs on our own - and given their propensity to retaliate, the attempt would in any case be unwise. Direct action

against imports from NICs which cause problems is therefore probably the best immediate prospect. Horizontal action by product sector rather than individual NIC would have the attraction of offering greater benefit to UK manufacturers of competing products; but it would involve action also against the NICs which maintain open markets - notably Singapore and Hong Kong - and countries like India which have few competitive industrial exports. The action proposed by the Trade Secretary against three of the more developed and protectionist NICs, Taiwan, South Korea and Brazil, is therefore probably more feasible; even so there is the risk of retaliation against our exports of capital goods and against UK firms chasing major projects business. This will need to be weighed in each case against the potential benefits for UK producers.

10. On cars from Australia, Romania and South Korea, comprehensive action to ban imports would require Community agreement and in its absence our position vis-a-vis Japan would have worsened, while the scale of these imports is too small to justify selective action. The introduction of prior surveillance licensing, however, on imports from Australia and the Eastern bloc could have a useful restraining influence psychologically without provoking retaliation. As regards type approval requirements, it is not clear what the Secretary of State for Trade has in mind, whether the ponderous application of existing procedures or cuts in staff, but the Attorney-General has advised previously that delaying the issue of certificates would be unlawful and could expose HMG to claims for damages from importers and other interests involved. Moreover in taking such action Ministers would face the dilemma of having to play down its significance in order to avoid comebacks from the Commission and third countries while having to present it to public opinion as a worthwhile measure against imports. The Committee may therefore wish to take up the Secretary of State for Trade's suggestion that the scope for action in this area needs to be considered further.

Further Action or Investigation

11. Although useful progress has already been made through the Community on Japan and Spain, the measures before the Committee will inevitably take time to produce decisive results. Members of the Committee may

therefore wish to explore the scope for unilateral action with more immediate effects. In practice, this is virtually limited to action under Community Regulation 288/82, under which without Community support measures can only last 1-3 months. There are moreover a number of difficulties which would need to be taken into account:

a. The risk of Community or domestic legal action - for example, the eye-catching measures taken by the French are likely to have to be rescinded or toned down to accord with GATT and Community rules, and many rely on administrative procedures which it would be difficult to implement in the UK without fear of legal action.

b. The ineffectiveness of such measures in opening up export markets.

c. Action against "unfair" imports could well lead to retaliation in sectors where export markets are already open and British industry is competitive. Such a protectionist exchange could well upset the delicate balance of the open trading system.

d. The effects on UK industry's competitiveness in the longer run of protective measures to keep out low-cost imports.

Public presentation

12. Given the continued pressure from industry for government measures against unfair trading practices, there would be advantage in presenting as many as possible of the measures in the Trade Secretary's paper as a new programme of action. In the immediate future there would be advantage in forthcoming public statements in drawing particular attention to the Community action on textiles, Japan and Spain. The possible bilateral talks with Spain, measures by car manufacturers, the conclusion of the pending VRAs with Japan, and the imposition of prior surveillance licensing for car imports from Australia and the Eastern bloc will afford further useful opportunities for positive presentation of the Government's measures in this area.

HANDLING

13. After the Secretary of State for Trade has introduced his memorandum, you will wish to invite comments from the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Industry Secretary. You may then wish to invite Mr Sparrow to follow up his comments at E(82)22nd Meeting on the economic case for action against imports. The Lord Chancellor and the Attorney-General may wish to comment on legal aspects of the proposals on type approval.

CONCLUSIONS

14. You will wish the Committee to reach conclusions on all the various suggestions in Lord Cockfield's paper which are, in summary, that the United Kingdom should:

Japan

(i) Encourage the United States to join in the Community's action under Article XXIII(2) of the GATT.

(ii) Encourage industry to conclude VRAs rapidly for machine tools and fork lift trucks.

(iii) Support the latest Commission ideas on Community-wide VRAs.

(iv) Maintain pressure for the Nissan project.

Spain

(v) Press the new Spanish government (both bilaterally and through the Commission) to reduce the present tariff disparity unilaterally and to enforce the 1970 Agreement properly.

(vi) Pursue talks with Ford and Vauxhall.

NICs

(vii) Urge the Commission to warn the NICs that GSP benefits will be phased out unless they take decisive action.

(viii) Seek VRAs for sensitive imports from Taiwan, Korea and Brazil.

Cars

(ix) Impose prior surveillance licensing on imports of cars from Australia, Romania, Poland, the USSR and Czechoslovakia.

(x) Examine our type approval requirements with a view to ensuring that they are no faster nor simpler than those of other countries.

The Secretary of State for Trade should be invited to take action and to report back to the Committee as he suggests. The Department of Transport should take the lead on the examination of the type approval system.

MT

Item 2: Proposed Import Advisory Board
(E(82)79)

BACKGROUND

1. Among the options which E(82)22nd Meeting on 28 October asked officials to examine was the possibility of establishing an Import Advisory Board which would consider the damage caused by imports in individual cases and the counterbalancing disbenefits of any restraints on trade and advise the Secretary of State for Trade accordingly.

2. The Secretary of State for Trade's memorandum notes that an Import Advisory Board would be valuable in assessing proposals for greater protection and exposing the issues for decision. He points out that it could require legislation, and that its precise status would need further thought. The main policy arguments for and against a Board are set out in paragraphs 5 and 6 of the officials' paper annexed. On the one hand, the Board would offer a useful method of ensuring that the case for and against protective measures was fully and publicly examined; would help to deflect purely political pressures for protectionist action and improve the United Kingdom's chances of getting Community blessing for such action when it was found to be justified. On the other hand, the detailed examination process might be unwelcome to industry and increase the time required before action could be taken; there might also be pressure for it to consider protective measures which were not the responsibility of Government. The paper by officials also suggests that the annual cost of the Board might be of the order of £½ million.

MAIN ISSUES

3. The main issues for decision are whether, in principle, such a body should be established and, if so, what further work needs to be done.

4. In considering the first, much will depend upon what an Import Advisory Board would be designed to achieve. Its work could, on the one hand, be aimed at improving the quality of decision making by analysing the case for import restraints in particular sectors and providing

objective advice to Ministers. This might, for example, in some cases find that the lack of competitiveness of British industry was as much to blame for import penetration as the "unfair" trading practices of the exporting country. In this role, the Board would underline the Government's commitment to fair trade. On the other hand, the Board could be run as a protectionist body providing advice on the threat to British industry caused by other countries' trading practices and recommending action. This could be helpful in dealing with these matters in the Community and GATT, provided that the recommendations did not outrun the instruments available for action. In either role, it would be important for the Board to be recognised as independent, authoritative and thorough if its reports were not to lead to further political pressure from consumer groups and industrial users opposed to import restraints or from firms affected by imports and disappointed at the absence or limited scale of restraints.

5. The Board's status and value would be substantially influenced by its form, terms of reference, and resources. It could be set up administratively and financed from the Department of Trade's vote, given statutory backing or established as a limited company. The first would probably be inconsistent with the need for the Board to be seen to be independent; the relative advantages of the alternatives would require further examination by officials in the light of the Government's policy on quangos. The terms of reference could restrict the Board to cases referred to it by the Secretary of State or allow direct access by affected interests; the second however could lead to unnecessary work and expense as well as increased political pressure. The figure of £500-600,000 quoted as the possible cost of the Board is purely illustrative. It might be possible to keep costs to a minimum by following the example of the French Consultative Commission on International Trade and contract out studies referred to it. If the Committee decides that the Board should be set up, officials would need to do more detailed work here also.

HANDLING

6. After the Secretary of State for Trade has introduced his memorandum, you may wish to focus discussion on the arguments for and against the

Board and the objectives which it might be given. The Chancellor of the Exchequer, the Industry Secretary and the Foreign and Commonwealth Secretary will probably all comment.

CONCLUSIONS

7. You will wish the Committee to reach conclusions on the following:

i. whether, in principle, an Import Advisory Board should be established;

ii. whether, before any final decision is taken, officials should be asked to give further consideration to its status, terms of reference, and cost.

GS

GUY STAPLETON

15 December 1982

CONFIDENTIAL

cc Mr. Vereker
Mr. Scholar

MR. MOUNT

TRADE POLICY: MEMORANDUM BY SECRETARY OF STATE FOR TRADE E(82)77

The memorandum embraces the aim that "a generally open trading system was in the United Kingdom's interests." But I am afraid one seeks in vain to find ways in which the various measures which follow achieve that general objective. It goes on to argue that the objective is to achieve better opportunities for British exports. But with few exceptions, most of it is about additional import restrictions.

One would not mind so much if the policy in imposing import restrictions was solely to induce our trading partners to reduce their tariffs so that we could then relax ours. This tactic, although it is in my view highly questionable since there is no historical example of success, would nevertheless have some logical justification. But no such argument is put.

For the most part it is concerned with negotiating VRAs, in the case of Japan, Taiwan, Korea and Brazil. It is not clear how a VRA will induce the exporting countries to reduce their tariff barriers.

It is clear from the examples given that the main objective is not the reduction of tariff barriers in the exporting countries. The main purpose is to protect our boot and shoe industry, our motor car industry, etc. Protection of this kind is the antithesis of an open trading system.

Furthermore the measures directed against countries such as Korea and Brazil are particularly inappropriate. Brazil has one of the biggest debt problems in the world, rivalling that of Mexico. The only way she can pay her debts is to export and export again and again. If she is not allowed to export those goods in which she has a relative advantage, surely shoes are one, then she will have not merely an incentive, but also some moral right in repudiating her debts. In fact it is unlikely that there will be an outright default; what will happen is we will give them the money in order to pay off their debts, instead of allowing them to earn the money by exporting such mundane articles as boots and shoes. Giving them

/the money

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the money instead of the opportunity to earn it, seems to me to be quite wrong.

Of course, I realise there are great political difficulties in certain sections of industry, and that political questions must loom very large. But we ought to be honest about this.

13 December 1982

ALAN WALTERS

PM-BLC 15/12

OFFICE OF THE UNITED KINGDOM
PERMANENT REPRESENTATIVE
TO THE EUROPEAN COMMUNITIES
ROND-POINT ROBERT SCHUMAN 6
1040 BRUSSELS

TELEPHONE 230 62 05

10 December 1982

M. Gaston Thorn
President of the Commission of
the European Communities
200 rue de la Loi
1040 BRUSSELS

In the absence of Sir Michael Butler, I have been asked to pass you the enclosed message from my Prime Minister, the Rt Hon Mrs Margaret Thatcher MP.

C D Powell

bcc: Sir M Butler
Mr Shepherd
Mr Powell/Mr Wright
Mr Smith
Mr Hannay, FCO
Mr Crowe, ECD(E), FCO
Miss Lackey, DOT

TEXT OF LETTER FROM THE PRIME MINISTER TO PRESIDENT THORN

When Vice-President Davignon was in London earlier this week, I discussed with him certain problems which are becoming acute in the United Kingdom, in particular those arising from our trade with Japan and Spain. I should like the Commission to be in no doubt about the gravity of these matters and therefore agreed with Mr Davignon that I would write to you at once.

We have long worked for a Commission solution to the Japanese problem and shall do all that we can to foster a united Community front. The United Kingdom will fully support the Commission's approach to Japan at the Foreign Affairs Council next week.

But the pressures on me to take effective action to deal with the problems caused by Japanese penetration of the British market are now intense. British public opinion really will not tolerate further delay in finding genuine solutions. Mr Davignon said that the Commission needed two months to find these solutions. I could not wait longer than that.

Then there is the problem of Spain. Our commitment to enlargement is in no doubt but enlargement will not happen next year. In the meantime, the inequity of the 1970 EC/Spain Agreement in a number of sectors is all too apparent - and is the subject of intense criticism in this country, especially in the West Midlands, the heart of our automobile industry. The disparity in duties on cars charged by Spain and the EC is totally unacceptable.

I look forward with interest to the proposals that I believe the Commission will be making on our immediate problem

/with

with Spain at next week's Council. Here again, if we cannot get a solution, there will be great pressure on me in Parliament which I will find very difficult to resist.

It is most important that the scale of the political problems now being caused by these trade issues is fully appreciated. We have reached the point where continued delay in finding adequate solutions is no longer acceptable. I must, therefore, look to the Commission for urgent and intensive action in the coming days and weeks.

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10 DOWNING STREET

From the Private Secretary

10 December, 1982.

Prime Minister's letter to the President of the European Commission about Japan and Spain

We spoke this afternoon about the draft message enclosed with my letter of today's date. We agreed that in the last sentence of the second paragraph the words "proposals on" should be deleted and the words "approach to" substituted. John Rhodes has informed me that the Department of Trade can accept the text. You undertook to telegraph instructions to Sir Michael Butler to deliver the message as soon as possible.

I enclose with this letter the final version of the message.

I am copying this letter and its enclosure to John Kerr (HM Treasury), John Rhodes (Department of Trade), Robert Lowson (Ministry of Agriculture, Fisheries and Food), Jonathan Spencer (Department of Industry), and Richard Hatfield (Cabinet Office).

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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DRAFT LETTER FROM THE PRIME MINISTER TO M. GASTON THORN

When Vice President Davignon was in London earlier this week, I discussed with him certain problems which are becoming acute in the United Kingdom, in particular those arising from our trade with Japan and Spain. I should like the Commission to be in no doubt about the gravity of these matters and therefore agreed with Mr. Davignon that I would write to you at once.

We have long worked for a Commission solution to the Japanese problem and shall do all that we can to foster a united Community front. The United Kingdom will fully support the Commission's approach to ~~proposals on~~ Japan at the Foreign Affairs Council next week.

But the pressures on me to take effective action to deal with the problems caused by Japanese penetration of the British market are now intense. British public opinion really will not tolerate further delay in finding genuine solutions. Mr. Davignon said that the Commission needed two months to find these solutions. I could not wait longer than that.

Then there is the problem of Spain. Our commitment to enlargement is in no doubt but enlargement will not happen next year. In the meantime, the inequity of the 1970 EC/Spain Agreement in a number of sectors is all too apparent - and is the subject of intense criticism in this country, especially in the West Midlands, the heart of our automobile industry. The disparity in duties on cars charged by Spain and the EC is totally unacceptable.

/ I look forward

I look forward with interest to the proposals that I believe the Commission will be making on our immediate problem with Spain at next week's Council. Here again, if we cannot get a solution, there will be great pressure on me in Parliament which I will find very difficult to resist.

It is most important that the scale of the political problems now being caused by these trade issues is fully appreciated. We have reached the point where continued delay in finding adequate solutions is no longer acceptable. I must, therefore, look to the Commission for urgent and intensive action in the coming days and weeks.

Trade (1).

PRIME MINISTER

Commissioner Davignon's Chef du Cabinet rang me this evening to carry out Davignon's commitment to give you an account of the meeting which the Commission had had today with George Shultz. I am afraid it was not very illuminating.

Agriculture

The Commission had taken the line that it would be easier to solve the agricultural problems between Europe and the United States if the Commission used its "margin of manoeuvre" within the existing framework, thereby avoiding a debate on fundamental principles. The US had appeared to accept this approach. (I took this to mean that the Commission are prepared to make adjustments within the Common Agricultural Policy to satisfy the Americans but are not prepared to call into question the fundamental features of the CAP.)

East/West relations

The Commission had again taken the line that they thought much could be done on export credits, energy and high technology if these matters were dealt with pragmatically rather than in accordance with pre-determined objectives. The US said that they could accept this approach.

Economic and monetary situation

The US had accepted the fundamental importance of economic stability and had recognised that they had crucial responsibilities, especially in the monetary field. Reagan had again raised his idea of the major industrialised countries making a fresh concerted attempt to resolve current economic and financial problems. ?

Shultz had apparently said that he had found the meeting very useful - though from the above account it is not easy to see why. We shall probably get a better account from Richard Butler over the weekend.

A.J.C. 10/12

10 December 1982

FILE

RW

10 DOWNING STREET

From the Private Secretary

10 December 1982

Dear John,

Prime Minister's letter to the President of the European Commission about Japan and Spain

Thank you for your letter of 8 December.

The Prime Minister was not entirely happy with the draft which you recommend she should send to President Thorn. Mrs Thatcher has asked for a shorter and stronger draft which refers, in particular, to Vice President Davignon's request that the Commission should be given two months to find a solution to the problems arising from Japanese penetration of the British market.

I enclose a revised draft. I need to submit a draft on these lines to the Prime Minister this afternoon and should therefore be grateful for immediate comments, from you and from the Foreign and Commonwealth Office.

I am copying this letter to John Kerr (HM Treasury), Roger Bone (FCO), Robert Lowson (MAFF), Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

Yours ever

Tony Cole.

John Rhodes, Esq.,
Department of Trade.

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PRIME MINISTER

Meeting with Commissioner Davignon

You told him that you would write a letter dealing in particular with our problems about trade with Japan and Spain.

It would be right for you to send this letter not to Davignon but to President Thorn. Davignon will of course see it and will know of its importance because of the talk with you.

I attach a letter which the Department of Trade and all the other Departments concerned have agreed. If you are content with this, and sign it, we shall telegraph the text to Brussels tomorrow. We shall also give Sir Michael Butler an account of your conversation with Davignon and point out that he undertook to give us satisfaction on the Japanese problem in about the next two months.

AJC.

It isn't tough enough

9 December 1982

Davignon said - give him 2 months. We must make no this period in the letter,

MT

I should like the Commission to be in no doubt about the gravity of these matters and am therefore agreed with Mr. Davignon that I would write to you at once.

10 DOWNING STREET

THE PRIME MINISTER

When Vice-President Davignon was in London earlier this week I discussed with him certain trade problems which are becoming acute in the United Kingdom, in particular those arising from our trade with Japan and Spain.

~~I am writing to let you know that~~ the United Kingdom will fully support the Commission's proposals on Japan at the Foreign Affairs Council next week. We have ~~for~~ long ~~welcomed~~ worked for a Community approach to the Japanese problem and shall do all that we can to foster a united Community front towards Japan.

~~I say this especially because~~ But the pressures on me to take effective action ~~to solve the problems caused by Japanese penetration~~ to deal with the British market are now intense. British public opinion really will not tolerate further delay in finding genuine solutions. ~~Moreover~~ Mr. Davignon said that the Commission needed two weeks to find solutions. I would not wait longer than that

My aim, as you must know, is to see that the benefits of Community membership are understood in the United Kingdom and that the work that the Commission has done - for example on steel, textiles and in the GATT Ministerial - is fully recognised. That is why I hope that we can achieve a Common Fisheries Policy this year and a Budget settlement by next March. I want these problems behind me. But I must also be able to show that the Community can deal effectively with the trading arrangements with third countries which are seen to be inequitable.

~~In addition to Japan,~~ Then there is the problem of Spain. Our commitment to enlargement is not in doubt but enlargement will not happen next year. In the meantime, the inequity of the 1970 EC/Spain agreement in a number of sectors is all too apparent - and is the subject of intense criticism in this country, especially in the West Midlands, the heart of our automobile industry. The disparity in duties on cars charged by Spain and the EC is totally unacceptable.

/ I know that

~~I know that Peter Rees discussed this problem recently with Commissioner Natali.~~ I look forward with interest to the proposals that I believe the Commission will be making on our immediate problem with Spain at next week's Council. Here again, if we cannot get a solution, there will be great pressure on me in Parliament which I will find very difficult to resist.

All this apart, I hope that in your discussions with George Shultz and the other four American Ministers this week, you will bring home to them the impact that United States policies have on the rest of the world. On the Community side, I do hope that every effort will be made to find some accommodation with the Americans on agricultural exports because I do not think British taxpayers will be alone in resenting paying for a subsidy war with the Americans - which could easily escalate across the board.

May I say that I discussed these matters - and others such as steel - with Vice President Davignon on Wednesday when we were together at a technology conference in London.

I believe that the Community is moving closer together on a range of matters and I ask you to take both my problems, and my concern to reinforce the Community's position, into full account.

It is most important ~~that~~ the ~~—~~ scale of the political problem now being caused by these trivial issues is fully appreciated. We have reached the point where continued delay in finding adequate solution cannot be tolerated. I shall ~~think~~ be bound to the Commission be urgent and intense action in the coming ~~and~~ days and weeks.

His Excellency Monsieur Gaston Thorn

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

CONFIDENTIAL

From the Secretary of State

John Coles Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

8 December 1982

Dear John

1 I attach a draft letter for the Prime Minister to send to President Thorn. This was commissioned from the Prime Minister's lunchtime meeting with Commissioner Davignon.

2 You will appreciate that the letter needs to be sent quickly, as will, I hope, the copy recipients of this letter.

3 Copies go to John Kerr (Treasury), Roger Bone (FCO), Robert Lowson (MAFF), Jonathan Spencer (Industry) and Richard Hatfield (Cabinet Office).

Yours sincerely,

JOHN RHODES
Private Secretary

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO PRESIDENT THORN

I am writing to let you know that the United Kingdom will fully support the Commission's proposals on Japan at the Foreign Affairs Council next week. We have for ~~a~~ long ~~time~~ welcomed a Community approach and ~~we will~~ shall do all that we can to foster a united Community front towards Japan.

I say this especially because the pressures on me to ~~do~~ take ~~something~~ effective action ~~on the Japanese problem are intense.~~ to solve the problems caused by Japanese penetration of the British market are intense. British public opinion really will not tolerate further delay in finding genuine solutions.

My aim, as you must know, is to see that, ~~in this country,~~ the benefits of Community membership are understood in Britain and that the work that the Commission has done - for example on steel, textiles and in the GATT Ministerial - is fully recognised. That is why I hope that we can achieve a Common Fisheries Policy this year and a Budget settlement by next March. I want these problems behind me. ~~With Japan, these are of crucial importance.~~

~~But~~ ~~And~~ But I must also be able to show ~~that~~ the Community can deal effectively with the trading arrangements with ~~problems of~~ third countries which we seem to be inequitable.

In addition to Lagos, there is the problem of Spain.

~~Then there is Spain.~~ Our commitment to enlargement is not in doubt but enlargement will not happen next year. In the meantime the inequity of the 1970 EC/Spain agreement in a number of sectors is all too apparent - and is ~~being focussed on~~ in the West Midlands, the heart of our automobile industry. The disparity in duties on cars charged by Spain and the EC ~~are totally imbalanced.~~ is totally unacceptable.

the subject of intense criticism in this country, especially

I know that Peter Rees ~~had a discussion~~ discussed the problem recently with Commissioner Natali ~~on this problem. That is why~~ I look forward with interest to the proposals that I believe the Commission will be making on our immediate problem with Spain at next week's Council. Here again, if we cannot get a solution, there will be great pressure on me in Parliament which I will find ~~it~~ very difficult to resist.

All this apart, I hope that in your discussions with George Shultz and the other four American Ministers this week, you will bring home to them the impact that United States policies have on the rest of the world. ~~I am seeing George after you do~~. On the Community side, I do hope that every effort will be made to find some accommodation with the Americans on agricultural exports ~~surpluses~~ because I do not think ~~my~~ British taxpayers will be alone in ~~resisting~~ resenting paying for a subsidy war with the Americans - which could easily escalate across the board.

May I say that I discussed these matters - and others such as steel - with Vice President Davignon ~~[yesterday/Wednesday] for~~ on Wednesday when we were together at a technology conference in London.

I believe that the Community is moving closer together on a range of matters and I ask you to take both my problems, and my concern ~~to reinforce~~ the Community's position, into full account.

- END -

CONFIDENTIAL

Trade

File 16

10 DOWNING STREET

From the Private Secretary

8 December 1982

CALL ON THE PRIME MINISTER BY COMMISSIONER DAVIGNON

Commissioner Davignon called on the Prime Minister at noon today. I enclose the record of conversation.

You will see that the Prime Minister stated that she would write a letter to the President of the Commission about the problems of trade with Japan and Spain. I should be most grateful if your Department could supply an early draft.

I am copying this letter, and its enclosure, to Roger Bone (Foreign and Commonwealth Office), Robert Lowson (Ministry of Agriculture, Fisheries and Food), Jonathan Spencer (Department of Industry) and David Hancock (Cabinet Office).

A J COLES

John Rhodes, Esq.,
Department of Trade.

CONFIDENTIAL

16

SUBJECT

CONFIDENTIAL

cc. Master set.

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND COMMISSIONER DAVIGNON AT 1200 HOURS ON WEDNESDAY 8 DECMEBER 1982 AT 10 DOWNING STREET

PRESENT

The Prime Minister
Mr. Robin Gray
Mr. John Coles

Commissioner Davignon
Private Secretary

The Prime Minister said that she much welcomed the opportunity to discuss with Commissioner Davignon certain pressing trade problems. The United Kingdom was an ardent supporter of free trade. Our market was open and our distribution system was excellent. But Japan, which excelled in production, took full advantage of our efficient distribution system. Meanwhile, the Yen was maintained at an artificially low level. She had made a determined effort at two Economic Summits to secure agreement on action against Japan but had received little support.

It was difficult for the Commission to negotiate with Japan or Spain because of the diverse interests of the various Member States in these issues. Italy was able to prevent the entry of Japanese goods; France used her own methods; some Member States did not have car industries of their own. As regards Spain, France and other Member States had made capital investments in Spain, had taken advantage of lower overheads and labour costs and had benefited from the tariff structure.

The United Kingdom could not wait much longer for action on Japan and Spain. Japan now took 10.6 per cent of our car market. There was now a prospect, as shown at the Smithfield Agricultural Show, of serious penetration by low-cost tractors. There was no doubt that the British Government would have popular support for action against Japan; nor need we fear serious Japanese retaliation against our own exports. There was now a prospect of an early settlement of the Common Fisheries Policy. We should work hard for a reasonable Budget settlement by March. But if the problem of trade with Spain continued, there would be a serious reaction in Britain. So, she had to repeat, that if we could not sort out these matters through the Community, we should have to take independent action.

/Commissioner Davignon

Commissioner Davignon said that he understood these problems. The question was - could the European Community obtain for Britain what we wanted? He had always taken the view that if the Commission could not deliver, it should not criticise Member States for actions they might take. But he believed that the Commission could deliver a solution in the next two months covering such Japanese exports as cars, electronics, machine tools, video recorders and light commercial vehicles. He hoped that the United Kingdom would give the Commission strong support. The Prime Minister might say to the Commission that if a solution was not achieved in two months, Britain would take action itself to solve its problems. On the other hand, we should be wary about weakening the Community at a time when, in other areas, we should need all the strength it can muster.

The Prime Minister agreed that it was better to have a Community arrangement if possible. But what action would the Commission take about Spain?

Commissioner Davignon said that he was not so familiar with that problem. He was aware in general terms of the difficulties created by Spanish car exports to the United Kingdom but he had not studied the matter in detail.

The Prime Minister said that the problem arose from both tariff and non-tariff barriers. She did not believe that our problems could be solved by Spanish entry into the Community since President Mitterrand was likely to prevent that entry for a considerable period. We could not wait that long.

Commissioner Davignon said that if the Commission obtained strong support from Member States on Japan, it would take soundings in Tokyo. The Prime Minister commented that the problem had been with us for a very considerable time. Surely soundings had been taken already?

Commissioner Davignon said that on every occasion in the past when the Community had been disposed to take positive action, the Japanese had approached one or more Member States, made a concession to them, and persuaded them to block Community action. In other words,

/the Japanese

the Japanese had bought off certain Member States. He had recently discussed these matters with President Mitterrand. He had asked whether the French decision to insist that certain Japanese products entered France via Poitiers meant that France had abandoned the idea of a Community arrangement with Japan. President Mitterrand had replied that if the Commission could not obtain an arrangement in three months' time, France would act unilaterally. This was significant because it meant that France was now working for a solution on a Community basis.

The Prime Minister said that she would write to the Commission about these matters and would deal with both Japan and Spain. Commissioner Davignon commented that the two cases were different. A special solution was needed for the problem caused by high Spanish penetration of the UK market, but this could be dealt with through existing EC instruments. But a new approach would be needed for Japan.

Mr. Gray pointed out that the Commission was due to make proposals on Spain in time for the Foreign Affairs Council on Monday or Tuesday of next week. The problem would be to obtain support from Germany. Commissioner Davignon said that he believed that German support could be secured, especially if Chancellor Kohl felt that it was not just relations with Japan but relations within the Community that were at stake.

Mr. Gray said that he had recently discussed the Spanish problem with representatives of Ford and General Motors and the Secretary of State for Trade would be seeing representatives of these companies next week. Both companies were sensitive about the numbers of cars that they were bringing into the United Kingdom.

The Prime Minister said that she very much wanted the problem of the UK Budget contribution to be sorted out by March of next year. She did not wish any EC problem to become an issue in the next election campaign, whenever that began.

The Prime Minister then raised the problems confronting the European steel industry.

/Commissioner Davignon

Commissioner Davignon said that the Commission had had a major argument with the German Government about the Arbed Steel Company. Three German bankers had now been appointed to present re-structuring proposals. He had had some discussion with them and expected that their report would recommend a 25 per cent reduction of German steel capacity in the next three years.

The Prime Minister said that it was not possible for the United Kingdom to reduce capacity further. There was a strong feeling that we had taken our share of reductions and that it was now up to others in Europe to act. Commissioner Davignon said that he accepted that Britain had done a good deal and Mr. Ian MacGregor had done an excellent job. But because of the collapse in the steel market, BSC would not make sufficient money in 1983 to avoid a loss. So additional measures would probably have to be taken in existing plants, though without these being closed down. The Prime Minister said that the Government had had to be extremely tough with the steel industry since 1979, but it now had to keep the competitive plants in existence. Commissioner Davignon said that many of the difficulties arose because the previous British Government had not taken the necessary decisions.

Commissioner Davignon said that at the end of this week he and other Commissioners would be seeing Mr. George Shultz in Brussels. The Prime Minister said that we must get through to the United States the message that its budget deficit was now becoming a foreign policy issue. The deficit had to be brought down, if necessary by reducing public expenditure. Economic growth in Europe could not be restored without a change of policy in the United States. Commissioner Davignon said that a group of United States businessmen had recently expressed to him the view that the American economy would, at best, take off again in the fourth quarter of next year - this meant that 1983 would be a bad year for Europe. He urged the Prime Minister, in her own talk with Mr. Shultz, to raise the issue of trade with Japan since there was a danger of the United States arriving at a separate settlement with that country, thus making the European task harder.

The discussion ended at 1300 hours.

8 December 1982

A.S.C.

cc. David Hancock, Co.

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DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Prime Minister

Agree that we should ask Davignon to call on Wednesday?

A.J.C. 6/12

From the Secretary of State

CONFIDENTIAL

John Coles Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

6 December 1982

Dear John,

You asked for advice on the possibility of a meeting between the Prime Minister and Commissioner Davignon who will be in London on Wednesday 8 December. Both the FCO and ourselves feel that a meeting at Downing Street, of about half an hour, would be extremely valuable.

Commissioner Davignon, who is also a Vice President of the Commission, is a man of particular intellect and energy. This is reflected in his particular standing within the Commission. He was extremely closely involved in the recent EC-United States steel negotiations and in the negotiations surrounding the Multi-Fibre Arrangement. It would be appropriate for the Prime Minister to recognise this: on both issues satisfactory solutions were eventually achieved. Commissioner Davignon was also involved, although to a significantly lesser extent, in the recent GATT Ministerials and the United States Pipeline problem.

There are three particular issues which we believe the Prime Minister might raise with Commissioner Davignon. They are:-

JAPAN Discussion would follow on from that in the European Council. HMG's support for the Commission's recent tougher line with Japan can be emphasised. We hope that next week's Foreign Affairs Council will increase the pressure on Japan to take much more fundamental steps to increase manufactured imports, restrain sensitive exports, and act to revalue the Yen.

We favour pursuing GATT action in respect of Japan, under Article XXIII (2). We hope that the FRG can be persuaded to agree, as well as gaining the support of the United States Administration for the use of the GATT approach.

From the Secretary of State

Finally, we would need to satisfy domestic pressures that any Community restraint measures would need to give us at least as effective protection as any national bilateral understandings.

SPAIN A second major problem is the disparity in trading opportunity with Spain. We remain committed to Spain's Accession to the Community but cannot afford to wait for it. Spain has long been in breach of her existing (1970) Trade Agreement with the Community (fiscal discrimination, opaque quota administration etc) This must be corrected without delay. In addition, Spain should play her part in reducing the current strains on the open trading system: we are therefore pressing for unilateral cuts in some of the very high tariffs (eg 36.7% on cars against the Community's 4%) that the 1970 Agreement allows her.

These points were raised by the Minister for Trade at the November Foreign Affairs Council. As a result, the Commission is now preparing a report on possible means of Community action. It is a matter of urgent political importance for us. We fear some of Commissioner Davignon's colleagues (eg Natali who is in charge of enlargement) are inclined to be fatalistic. Commissioner Davignon should appreciate more readily than most our refusal to accept that the now well-developed Spanish vehicle, steel shipbuilding and textile industries should continue to compete on such unequal terms with Community industries that have been so painfully restructured.

EC-UNITED STATES RELATIONS Finally, we should leave Commissioner Davignon in no doubt of our concern about the way in which EC-United States relations might develop in the next few months. The European Council has given the Commission a mandate to be responsive to United States concerns, particularly over agricultural subsidies, and to explore ways of reconciling the United States and EC interests. The Foreign Secretary is urging Mr Shultz to approach the discussions in a positive frame of mind. It would be very helpful if the Prime Minister could use this occasion to stress to the Commissioner that without some flexibility from the Community we are likely to find ourselves engaged in an extremely damaging confrontation.

CONFIDENTIAL

From the Secretary of State

Both my Secretary of State, and, I understand, the Foreign Secretary, feel that this meeting with Commissioner Davignon could be extremely valuable. He is man of considerable influence, and the meeting - which will flatter him - provides an excellent and informal opportunity to secure his sympathy for our position.

I am copying this to Roger Bone (FCO), Robert Lowson (MAFF) and to Jonathan Spencer (DoI).

Yours sincerely,

JOHN RHODES
Private Secretary

CONFIDENTIAL

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CONFIDENTIAL

Prime Minister

Mr. Rees' report is still worth reading.

A.J.C. 7/12

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From the
Minister for Trade

The Rt Hon Francis Pym Esq MC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
London SWI

6 December 1982

Dear Francis

GATT MINISTERIAL MEETING

I represented the United Kingdom at the GATT Ministerial Meeting in Geneva from the 24th to the 29th November. In the event, the Meeting proved more testing than even the most realistic and experienced participants (including the United Kingdom) had expected. I attach as an annex to this letter, the main conclusions reached, with my comments.

We had three objectives at the Meeting: not to compromise any essential British interests; to maintain a European Community position; to preserve the GATT and, if possible, to advance work in certain specified fields.

As regards the first objective, we have, through the Community, preserved the right to take selective safeguard action.

As regards the second objective, in spite of interminable, and not always harmonious, meetings of the Ministerial Council of the Community, which started in Brussels on the 22nd of November and which continued at Geneva intermittently throughout the Ministerial Council itself, the Community presented a united front to the outside world and did not end up isolated. A powerful British/German/Dutch axis developed intent on preserving the GATT and this axis managed to outflank the French whose motives and objectives, as articulated by M. Jobert, were rather obscure and almost certainly not helpful. I did not judge it appropriate either in the Ministerial Council or in the rest of the Conference to take a high profile on the question of the CAP. Nor, incidentally, did Count Lambsdorff.

I did, however, make it clear to Ambassador Brock and to Mr Anthony who appeared initially to be attempting to isolate the Community on agricultural issues, that the pressure from outside would probably retard, rather than accelerate, internal moves to reform the CAP. I also pointed out that an agricultural war, based on subsidised exports, would almost certainly do most damage to New Zealand, and other small producers.

As regards the GATT itself, the negotiations were based on a discussion document which was a synthesis propounded by the Indian Ambassador prior to the Meeting of the various positions taken up by the Contracting Parties. The developing countries, led so far as I can judge, by Colombia, Brazil and India attempted to argue that this document was inviolable, even though various questions, such as Services and disputes settlement, were not adequately covered by it. However by Saturday it had been appreciated by developing countries that a breakdown was likely and negotiations then started in earnest.

The ultimate question then became how far reservations by any major signatory would provoke a number of similar reservations by other signatories and so discredit the outcome. After lengthy Community negotiations, a major reservation on agriculture was entered by the Community. It was not, however, recorded until after the general acceptance of the declaration by the Meeting. The other reservations entered were mainly on the question of trade in Services by certain developing countries who challenged the GATT's competence in this field but were prepared, so far as I could judge, to accept further work .

During the Meeting, negotiations on behalf of the Community were conducted by Commissioner Haferkamp, ably assisted by Sir Roy Denman. Haferkamp did not prove to be an inadequate negotiator. He seemed to retain the goodwill and trust of other parties inspite of the - at times - very difficult negotiating brief given to him by the Council of Ministers. I was not able to judge the quality of the Canadian Chairman of the Meeting, Mr MacEachean. He had admittedly a very difficult task in attempting to reconcile the positions of all signatories. I suspect however that he can be criticised for not having moved the Meeting at an earlier stage from the repetition of prepared positions to serious negotiations on selected problems. He deserves however a measure of sympathy for having undertaken the thankless task and carrying it through to a conclusion.

Two others of the Dramatis Personnae deserve special mention. Doug Anthony left before the conclusion of the Meeting and put in a note of dissent from the overall conclusions, which was circulated to many signatories before negotiations had been concluded. He had throughout made agriculture the centre piece of the Australian position - directing himself at the CAP - and proved quite intransigent, due presumably to domestic pressures. He cancelled one bilateral meeting arranged with myself and declined an invitation to dinner. So it proved impossible to have a prolonged discussion with him on GATT issues.

Ambassador Brock had ill-advisedly built up public expectations in the USA prior to the Meeting and suffered from the disadvantage of being accompanied for part of the Meeting by a number

of very protectionist senators. He seemed near to despair at points during the Meeting, but at the conclusion he considered, I think, that he had secured just sufficient - particularly in the fields of trade in services - to return home with some credit. I made a particular point of seeing him at various stages of the meeting and I explained the United Kingdom and the Community's position, which he seemed to appreciate. Whether these efforts and those of Lambsdorff will set the tone for a constructive visit by Shultz and Block to Brussels remains to be seen.

I also made a point of attending the Commonwealth Ministers Meeting convened by Sonny Ramphal the day before the formal opening of the Meeting and seeing several of the Commonwealth Ministers again, in particular my Indian counterpart, Shivraj Patil, during the Meeting itself. No solid identity of view emerged, but I hope that the United Kingdom and the Community's position was better appreciated as a result.

The outcome of the Meeting was modest. The GATT has survived not, I believe, discredited and a small work programme has been set in hand to take it further in several areas. Against the background of a world recession and with acute domestic pressures in each country this should not be underestimated. For the future, I suspect that a gap of nine years between meetings is too much and only serves to raise public expectations. On the other hand an annual meeting would serve to devalue the process. I am giving thought to this question. In view of the dealines built into some of the GATT work programmes, I suspect that another meeting within two or three years would be appropriate. Such a meeting would need to have a much shorter agenda and to be mounted on a different basis.

It will be important to ensure that UNCTAD does not supersede GATT as a forum for trade discussions. At several points Lambsdorff confided to me that the Meeting had "the smell of UNCTAD". Equally it will be important so far as our relations with the developing world are concerned not to appear to devalue UNCTAD.

In conclusion, I would like to pay a special tribute to Peter Marshall and to the joint team from your and my department who worked tirelessly, and with imagination and humour - very often into the early hours of the morning - during the meeting itself and during the months of preparation that preceded it.

I am copying this to the Prime Minister, members of ODE and Sir Robert Armstrong.

Yours ever Peter

PETER REES

ANNEXE

Services

Agreement to a study of trade in services, one of our main aims, proved harder to secure than we had expected, despite successful lobbying of the Brazilians by the US , who were our main allies, and to a lesser extent by the UK. We also made intensive efforts with the Commonwealth, where India was a formidable opponent of the proposal. In the end we managed to secure agreement to a study, on reasonably satisfactory, if not ideal terms.

Agriculture

From the outset the US made clear that it was looking for solutions to agricultural problems and regularly threatened to abandon the meeting if it did not get its way. EC resistance to this was led by the French, who were bellicose throughout, though with support from the Italians, Irish, Belgians and Greeks. In the event, althought the US moderated their demands a little, the EC had to dissociate itself from a commitment to a round of agricultural liberalisations to follow the agriculture study, which was agreed.

Dispute Settlement

A modest outcome was achieved with existing procedures being reinforced.

Newly Industrialised Countries

On the question of unfair market access, we achieved agreement on a study on trade between developed and developing countries, which was our objective. I also referred to this problem in strong terms in my own speech to the meeting. None of this will in itself solve the problem as we have recognised all along. We should pocket the GATT development as a useful step and continue to press our concerns with the EC and bilaterally.

Japan

There is a reference in the Ministerial Declaration, but it is not one which will be immediately intelligible to the man in the street. It was never realistic to expect that Japan would agree to go along with any explicit reference to its trading practices in a multilaterally negotiated text, and our ability, even as part of the EC, to steam roller through such an objective was always non-existent. Japan played a very skilful low key hand, following the US lead. We must now concentrate on pressing home the Article XXIII attack.

Main copy filed in Euro Pol Budget Pt 17

cc Trade Non Tariff Barriers Pt 3

Ref. A082/0344

PRIME MINISTER

Cabinet: Community Affairs

The Secretary of State for Trade will wish to report on the GATT Ministerial meeting in Geneva on 24/29 November at which the United Kingdom was represented by the Minister for Trade. Although it has received a rather negative press, there was much in the outcome with which we can be content. The meeting adopted a wide-ranging document which included decisions and conclusions covering most of the main issues: there was a realistic political commitment to the open-trading system; our ability to take safeguard action has been preserved; there are to be the studies we wanted on trade in services and on integrating the newly industrialised countries more fully into the GATT system; and an improved procedure for the settlement of disputes. On two points the Community had to enter reserves. While the EC agreed to a study of the whole question of agricultural trade issues, it was not willing to commit itself prior to the study to the negotiation of additional liberalisation in this field. The other EC reserve was on the roll-back of protective measures in order to protect our defensive measures against Japan and other East Asian suppliers.

2. The Minister of Agriculture, Fisheries and Food will wish to report on the Fisheries Council on 29 November. There were no further negotiations. Nine member states reaffirmed their agreement to the Common Fisheries Policy agreed on 8 November but Denmark asked for more time. At the United Kingdom's instigation the Commission will convene a high-level working group of officials on 6 December to prepare the national measures that will be required if Danish agreement is not obtained before 31 December. The Fisheries Council is due to meet again on 21 December.

3. The Minister of Agriculture may also refer to the two subjects of his recent correspondence with you and the Foreign and Commonwealth Secretary. He minuted you on 19 November and wrote to Mr Pym on 29 November about the agreement the French have made with

the Soviet Union for exports of subsidised agricultural products to the USSR. Mr Walker wants the maximum pressure exerted on the Commission, to ensure both that they open infraction proceedings against the French and that the French do not gain the benefit of export refunds. The Minister of Agriculture's letter to the Foreign and Commonwealth Secretary of 29 November also registered his view that, while we cannot ultimately prevent it, we should continue to object to the sale of Community butter to the Soviet Union. You discussed both these issues with the Foreign and Commonwealth Secretary on 26 November.

4. The Environment Council will meet on 3 December, and you and a number of your colleagues will be attending the European Council meeting in Copenhagen on 3/4 December.

Approved by
ROBERT ARMSTRONG
and signed in his absence

1 December 1982

Trade tariff barriers

PRIME MINISTER

MT

STATEMENT ON GATT

The House seemed to expect more from the GATT Ministerial Meeting than was ever likely. In his statement, Peter Rees made it clear that the purpose of the meeting was not to change the agreement itself, but to reaffirm support for the existing obligations, and to seek agreement on the examination of certain issues. The GATT meeting reached consensus on such a document at 5 o'clock this morning. In particular the meeting called for studies of agricultural trade issues, the problems of trade in services, how to encourage the newly industrialised countries to accept GATT obligations, how to combat trade in counterfeit goods, as well as an improved procedure for the settlement of disputes.

Ken Woolmer, opening for the Opposition, raised five points, which can be summarised as:

- was the CAP in the interests of the consumer, the taxpayer and the industrialist, and what line had the UK taken at the meeting;
- what action had the meeting agreed on trade from the NICs and their excessive tariff barriers;
- what new disputes procedures had been agreed;
- what had the meeting done about the trade policies of countries such as Japan; and
- what steps had the meeting taken to expand demand, and therefore world trade, so as to avoid a slide into protectionism?

Mr. Rees answered these points by referring to the studies that the GATT meeting had agreed on agriculture, the NICs and disputes procedures. On the CAP, he pointed out that other major developed countries (Japan, United States) have comparable or higher levels of protection and support.

/ The Community

The Community was the largest importer of agricultural products in the world. A study of agricultural trade policies had been agreed, but the Community had entered a reserve on a proposal to link this study with a wider commitment to re-negotiation of the fundamental structure of agricultural trade. On the question of Japanese trade policies, and on such problems as the Spanish tariff barriers on cars, Mr. Rees pointed out that the GATT meeting was not the place for the discussion of bilateral problems. In answer to accusations that the meeting had done nothing to defend manufacturing industry, Mr. Rees pointed out that three out of every five employees in Great Britain worked in the service sector.

Most of the questioning fell into three categories. First, there were those who attacked, directly or indirectly, the CAP. Douglas Jay called on the Government to support American opposition to food subsidies. Enoch Powell said that open trade was incompatible with membership of the EC. Tony Marlow said that a commitment to the open trading system surely implied a commitment to a free trade in agricultural products, and this was repeated by Richard Shepherd and Teddy Taylor. Second, there were those who called for action against imports in sectors such as steel and textiles. Barry Jones described these as "cheating imports". Others drew attention to the recent redundancies in the steel industry. In reply, Mr. Rees pointed out that, long before the meeting in Geneva, the Community had taken robust action on steel, especially over the countervailing duties imposed by the United States, and on voluntary restraint agreements with third countries. Nothing said at the GATT meeting would make the situation worse. Nor would it prevent anti-dumping action being taken where appropriate. Third, there were a number of Members who drew particular attention to the problem of Japanese imports, and some threw in for good measure the problem of tariff barriers on exports of cars to Spain. Julian Ridsdale and Jonathan Aitken led this group. Mr. Rees repeated that GATT was not the place for detailed discussions on bilateral issues.

/ In general,

In general, the Opposition tried to paint the meeting as disappointing; we had failed to protect our national interests.

GR

29 November 1982

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From the
Minister for Trade

W Rickett Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON SW1

29 November 1982

Dear Willie

I attach a draft statement which the Minister for Trade proposes to make in the Commons this afternoon about the GATT Ministerial Meeting in Geneva*. The Meeting, which began on 24 November was scheduled to finish on Saturday, 27 November but did not, in fact end until about 5.30 am today (29 November).

The Meeting, at which 88 countries participated, adopted by consensus a document providing for the maintenance of existing GATT obligations and the strengthening of their observance; it calls for responsible behaviour between Contracting Parties and foreshadows an improvement in dispute settlement procedures.

A substantial future work programme was also established, including a study of trade in services, of issues affecting trade prospects, of the appropriate forum for action on counterfeit goods and the whole question of agricultural trade issues.

The UK, and other Community countries, consistently emphasised the need for realistic conclusions and decisions. The Community therefore reserved its position on a commitment accepted by other contracting parties to follow up the Agricultural study by the preparation for the negotiation of further liberalisation of trade in agriculture, considering it unwise to prejudge the results of the study. The Community also made a number of other interpretative declarations to clarify its position.
... I also attach as requested by Michael Scholar, copies of supplementary questions and answers.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Office Secretary of State, Secretary of State for Trade, Minister for Agriculture, Fisheries and Food, Lord President of the Council, Chief Whip and Sir Robert Armstrong.

The Minister will circulate a further letter shortly.

David Hayes

David Hayes
Assistant Private Secretary to
the Minister for Trade (PETER REES)

* The statement will also be made in the House of Lords by the Secretary of State.

Ken Woolmer

NEAR FINAL VERSION. WILL NOT BE SUBSTIALLY ALTERED.

HOUSE OF COMMONS STATEMENT

WITH PERMISSION I WILL MAKE A STATEMENT ABOUT THE MINISTERIAL MEETING OF THE GATT AT GENEVA WHICH CONCLUDED ITS PROCEEDINGS THIS MORNING AT 5 AM. A COPY OF THE DECLARATION AND DECISIONS OF THE MEETING WILL BE PLACED IN THE LIBRARY AS SOON AS POSSIBLE.

THE MINISTERIAL MEETING WAS THE FIRST FOR NINE YEARS AND WAS ATTENDED BY OVER 80 SIGNATORIES WHICH ACCOUNT FOR OVER 90% OF WORLD TRADE. AFTER 5½ DAYS AND NIGHTS OF NEGOTIATION THE MEETING ADOPTED BY CONSENSUS A DOCUMENT WHICH CONSTITUTES A REALISTIC COMMITMENT BY THE SIGNATORIES TO MAINTAIN THE EXISTING OBLIGATIONS OF THE GATT WHICH HAVE UNDER-PINNED THE OPEN TRADING SYSTEM SINCE THE WAR AND STRENGTHEN THEIR OBSERVANCE IN THE FUTURE.

THROUGHOUT THE MEETING, THE COUNTRIES OF THE EUROPEAN COMMUNITY CONSISTENTLY EMPHASISED THE NEED FOR CONCLUSIONS AND DECISIONS TO BE EXPRESSED IN REALISTIC TERMS. FOR THIS REASON THE EUROPEAN COMMUNITY ENTERED A RESERVE ON A PROPOSAL TO LINK THE STUDY OF AGRICULTURAL TRADE WITH A WIDE COMMITMENT TO RE-NEGOTIATE THE FUNDAMENTAL STRUCTURE OF THIS TRADE. THE EUROPEAN COMMUNITY, AS DID A NUMBER OF OTHER SIGNATORIES, MADE CERTAIN OTHER INTERPRETATIVE DECLARATIONS.

EVEN WITH THESE RESERVATIONS, THE OUTCOME OF THE NEGOTIATIONS UNDERTAKEN AGAINST THE BACKGROUND OF A WORLD RECESSION MUST BE REGARDED AS AN ENCOURAGING RE-COMMITMENT TO THE MAINTENANCE OF THE OPEN TRADING SYSTEM ON WHICH THE PROSPERITY OF THE UNITED KINGDOM AS A GREAT EXPORTING NATION DEPENDS AND HAS HELPED TO FOCUS THE ATTENTION OF THE WORLD ON THE CONSEQUENCES OF A BREAKDOWN OF THIS SYSTEM. IT WAS, I THINK, RECOGNISED THAT THE UNITED KINGDOM THROUGH THE EUROPEAN COMMUNITY MADE A FULL AND CONSTRUCTIVE CONTRIBUTION TO THIS OUTCOME WITHOUT HOWEVER COMPROMISING ITS RIGHT TO SAFEGUARD ITS ESSENTIAL NATIONAL INTERESTS.

IN PARTICULAR THE DOCUMENT PROVIDES FOR:-

- A STUDY COVERING AGRICULTURAL TRADE ISSUES IN THEIR ENTIRETY;

- A STUDY OF THE PROBLEMS OF INTERNATIONAL TRADE IN SERVICES;

- A STUDY TO COVER WAYS AND MEANS OF ACHIEVING THE ACCEPTANCE BY NEWLY INDUSTRIALISED COUNTRIES OF INCREASED ACCEPTANCE BY THEM OF OBLIGATIONS UNDER THE GATT AND OF AN INCREASE OF TRADE WITH THEM;

- AN IMPROVED PROCEDURE FOR THE SETTLEMENT OF DISPUTES;

- AND A STUDY OF HOW BEST TO COMBAT TRADE IN COUNTERFEIT GOODS.

HOW DO THE GOVERNMENT ASSESS THE RESULTS OF THE GATT MINISTERIAL MEETING?

The Meeting took place against a sombre economic background. Developing countries are suffering from a deterioration in their terms of trade. The recession has led to a level of unemployment in the developed world which causes universal concern. The open trading system is ~~inevitably~~ inconsequence under severe strain. But by and large protectionist pressures have been successfully resisted so far. The broad measure of agreement reached at the GATT Ministerial Meeting after an exhaustive process of negotiations demonstrates the continuing commitment of the governments of the free world to continue collectively to uphold their GATT obligations. There is a general recognition that while the open trading system cannot by itself provide the answer to the problems created by the most serious world recession since the war, a general retreat into protectionist beggar-my-neighbour policies would make present problems far worse.

THE EC STAND OVER AGRICULTURE HAS CAUSED THE FAILURE OF THE CONFERENCE

In his speech in the Plenary session, my Hon and Learned Friend asked specifically that the success or failure of the meeting should not be judged by reference to agriculture alone. To do so would be to dismiss the broad measure of agreement achieved in this and other areas. The Community has said it is willing to participate in a comprehensive GATT study of agricultural trade policies. It is not willing at this stage to prejudge the outcome of this particular study by committing itself to the negotiation of additional commitments in this area above and beyond those undertaken in 1979 at the end of the Tokyo Round of Multilateral Trade Negotiations. These included some opening up of the Community market and a measure of additional discipline in the area of export subsidies. The Community is already by far the largest importer of agricultural products in the world. Other major developed countries (Japan, US) have comparable or higher levels of agricultural protection and support. It remains to be seen whether they will be able to live up to their new undertaking to liberalise access to their markets.

WHY DID THE UK GO ALONG WITH THE COMMUNITY RESERVE ON AGRICULTURE AND ABANDON ITS FRIENDS IN THE UNITED STATES AND THE COMMONWEALTH?

It is no secret that the UK has reservations about the Common Agricultural Policy. We are seeking reform. To the extent that we succeed in limiting the production of high cost surpluses we shall contribute to the development of an easier relationship with important trading partners like the United States and Australia as well as reducing a ~~the~~ drain on the Community budget. Despite this, we agreed with our Community partners that it was unfair and unnecessary to ask for a commitment from the Community to a new round of trade negotiations specifically related to the agricultural sector at this stage. I believe that our position is fully understood by our friends in the United States and the Commonwealth as a result of the bilateral discussions which my Hon and Learned Friend the Minister for Trade had with their representatives in Geneva.

AUSTRALIA HAS DISASSOCIATED ITSELF FROM THE CONCLUSIONS

We ~~fully~~ understand the Australians' concern to be able to exploit more fully their cost advantage in the agricultural sector. Whether this justifies the modest range of GATT obligations Australia has itself undertaken is a matter for the Australian government. The level of protection of their domestic market is, however, unusually high for an industrialised country.

THERE ARE TOO MANY CONCESSIONS TO DEVELOPING COUNTRIES

An eminent authority once said of the GATT "only the learned can communicate with it and then only in code". There may appear to be rather too much ritual language in the Ministerial Declaration. But at the same time it does call for "reciprocity and fuller participation of developing countries" in the GATT, ~~to be implemented more effectively~~. This represents a new opening to convince the more advanced developing countries that they need to reduce unfair and unnecessary import barriers. At the same time it is right that we should continue to give special ~~and differential~~ treatment to imports from the poorest and most deserving countries. In this regard the Community, and particularly the UK, has a highly respectable record.

SERVICES

Work in the GATT on Services is a major new departure and one which is of particular interest to the UK. The field is wide but we shall contribute constructively with a view to securing early progress.

TROPICAL PRODUCTS

This is an issue of particular concern to developing countries. A work programme is to be undertaken which we believe will demonstrate that, where there is scope for further liberalisation it lies largely with other developed countries (Japan, US, Australia).

TEXTILES

This study relates to the longer term and as such is not unreasonable. It in no way affects the present MFA and the new bilateral agreements being negotiated under it which will run until the end of 1986.

FRENCH ROLE

It is for the French Trade Minister to answer for his contribution. But the Community as a whole was clear that any analysis of strain on the open trading system should take proper account of the effects of the present recession and that any new commitments should be expressed in realistic terms.

Trade

STATEMENT

WITH PERMISSION I WILL MAKE A STATEMENT ABOUT THE MINISTERIAL MEETING OF THE GATT AT GENEVA WHICH CONCLUDED ITS PROCEEDINGS THIS MORNING AT 5 AM. A COPY OF THE DECLARATION AND DECISIONS OF THE MEETING WILL BE PLACED IN THE LIBRARY AS SOON AS POSSIBLE.

THE MINISTERIAL MEETING WAS THE FIRST FOR NINE YEARS AND WAS ATTENDED BY OVER 80 SIGNATORIES WHICH ACCOUNT FOR OVER 90% OF WORLD TRADE. THE PURPOSE OF THE MEETING WAS NOT TO REVISE OR AMEND THE GENERAL AGREEMENT ITSELF BUT TO RE-AFFIRM SUPPORT FOR EXISTING OBLIGATIONS AND TO SEEK AGREEMENT ON THE EXAMINATION OF CERTAIN ~~KEY~~ IMPORTANT ISSUES WHICH MIGHT FORM THE BASIS OF FUTURE NEGOTIATIONS.

AFTER 5½ DAYS AND NIGHTS OF NEGOTIATION THE MEETING ADOPTED BY CONSENSUS A DOCUMENT WHICH CONSTITUTES A REALISTIC COMMITMENT BY THE SIGNATORIES TO MAINTAIN THE EXISTING OBLIGATIONS OF THE GATT WHICH HAVE UNDER-PINNED THE OPEN TRADING SYSTEM SINCE THE WAR AND STRENGTHEN THEIR OBSERVANCE IN THE FUTURE. THE DOCUMENT DOES NOT PREVENT CONTRACTING PARTIES ADOPTING SAFEGUARD MEASURES UNDER THE GATT OR MEASURES WITH A SIMILAR EFFECT.

IN PARTICULAR THE DOCUMENT PROVIDES FOR:-

3 - A STUDY COVERING AGRICULTURAL TRADE ISSUES IN THEIR ENTIRETY;

2 - A STUDY OF THE PROBLEMS OF INTERNATIONAL TRADE IN SERVICES;

1 - A STUDY TO COVER WAYS AND MEANS OF ACHIEVING THE ACCEPTANCE BY NEWLY INDUSTRIALISED COUNTRIES OF INCREASED ACCEPTANCE BY THEM OF OBLIGATIONS UNDER THE GATT AND OF AN INCREASE OF TRADE WITH THEM;

5 - AN IMPROVED PROCEDURE FOR THE SETTLEMENT OF DISPUTES;

4 - AND A STUDY OF HOW BEST TO COMBAT TRADE IN COUNTERFEIT GOODS.

THROUGHOUT THE MEETING, THE COUNTRIES OF THE EUROPEAN COMMUNITY CONSISTENTLY EMPHASISED THE NEED FOR CONCLUSIONS AND DECISIONS TO BE EXPRESSED IN REALISTIC TERMS. FOR THIS REASON THE EUROPEAN COMMUNITY ENTERED A RESERVE ON A PROPOSAL TO LINK THE STUDY OF AGRICULTURAL TRADE WITH A WIDE COMMITMENT TO RE-NEGOTIATE THE FUNDAMENTAL STRUCTURE OF THIS TRADE. THE EUROPEAN COMMUNITY, AS DID A NUMBER OF OTHER SIGNATORIES, MADE CERTAIN OTHER INTERPRETATIVE DECLARATIONS.

EVEN WITH THESE RESERVATIONS, THE OUTCOME OF THE NEGOTIATIONS-UNDERTAKEN AGAINST THE BACKGROUND OF A WORLD RECESSION-MUST BE REGARDED AS AN ENCOURAGING RE-COMMITMENT TO THE MAINTENANCE OF THE OPEN TRADING SYSTEM ON WHICH THE PROSPERITY OF THE UNITED KINGDOM AS A GREAT EXPORTING NATION DEPENDS, AND HAS HELPED TO FOCUS THE ATTENTION OF THE WORLD ON THE CONSEQUENCES OF A BREAKDOWN OF THIS SYSTEM. IT WAS, I THINK, RECOGNISED THAT THE UNITED KINGDOM THROUGH THE EUROPEAN COMMUNITY MADE A FULL AND CONSTRUCTIVE CONTRIBUTION TO THIS OUTCOME WITHOUT HOWEVER COMPROMISING ITS RIGHT TO SAFEGUARD ITS ESSENTIAL NATIONAL INTERESTS.

MFJ

25 November 1982

GATT Ministerial Meeting

The Prime Minister has noted the contents of Lord Cockfield's minute of 24 November.

AJC

John Rhodes Esq
Department of Trade

GATT MINISTERIAL MEETING

POINTS TO MAKE

AGRICULTURE

The Community has agreed to participate in a wide study of agricultural trade policies. Despite our reservations about the CAP, we agreed with the EC that a further demand that we should agree to a new round of negotiations as well was unfair and unnecessary.

NEWLY INDUSTRIALISING COUNTRIES

A study of trade between developed and developing countries gives us the chance to pursue our concerns multilaterally. This is a welcome step forward and meets one of our objectives for the GATT Ministerial Meeting. Nobody pretends it is the whole answer.

DISPUTE PROCEDURE

We wanted the existing system tightened up and have achieved this.

UNFAIR TRADE (JAPAN, SPAIN ETC)

We said we would use the meeting to convey our concern and we did. But we never expected it to provide a universal panacea. We shall continue to pursue the problem with the EC and bilaterally.

BACKGROUND

The outcome of the meeting is more satisfactory than seemed possible at several stages during the negotiations. EC persistence injected a substantial amount of realism into the Ministerial Declaration, notably on the ceasefire. US concerns on agriculture looked like producing a major confrontation. However, they modified their stance a little, while the EC accepted a wide ranging study. On services, the UK and US worked intensively to get agreement in what proved to be a successful collaboration. The EC also achieved its objective of getting a study on trade between developed and developing countries which can be used as the vehicle for pressing concerns about unfair market access.

Prime Minister

From the Secretary of State

PRIME MINISTER

GATT MINISTERIAL MEETING

In view of all the press publicity over the last few days, you and our colleagues may like to know how things stand at the meeting of GATT Trade Ministers in Geneva. There was a good deal of activity over and since the week-end, although the meeting formally started only today and is expected to finish on Friday or Saturday.

The Community considered its position at the meeting of the Foreign Affairs Council on Monday. Several Member States, including the UK, were unhappy with what had so far emerged from Geneva. Difficulties included:

(1) The language of the political declaration, which inadequately reflected the EC's analysis of the reasons for the present crisis.

(2) Agriculture, where the EEC felt that the text went too far in attempting to bring agriculture under GATT rules and the Americans and Australians felt it did not go far enough.

(3) The so-called "ceasefire", where proposals for tightening up safeguards would fall most heavily on the EC, and could be construed as unrealistic commitments to abandoning voluntary export restraints entered into by Japan and the NICs outside the GATT framework.

(4) The obligations of developing countries, where the handling of problems caused by the newly industrialising countries was weak.

(5) Services, where no text had yet been agreed.

It was therefore agreed that the Commission should continue to negotiate on the basis of the guidelines agreed by the Community on 29 October which covered all these points.

The Ministerial session opened today with formal statements by a number of countries. The UK blocked circulation of a statement of the EC position, because it contained no reference to services. We are continuing to insist that this item is included.

From the Secretary of State

It looks as though negotiations of the Ministerial text will now be handled by a small group of 14 Ministers (divided equally between developed and developing countries) meeting informally. They are expected to report tomorrow, when there will be a further Foreign Affairs Council to consider the EC position. Peter Rees will also be putting specific UK concerns on record in his speech to the meeting.

It remains, in my view, of the first importance that breakdown should be avoided. Press reporting is gloomy, with suggestions - not entirely accurate - of a US versus EEC confrontation. That is an excessively simplistic view. We ourselves are making every effort to point to the need for flexibility all round, while protecting our vital interests.

There were indications earlier in the week that the French were considering dissociating themselves from the outcome of the meeting because it dealt inadequately with their interest. It would, be a mistake for the Community, or for that matter the UK independently, to take matters that far unless of course vital interests were at stake. The French Trade Minister's speech today seemed in fact to have represented a tactical retreat in that he left his options open. On the other side of the fence it is quite possible that if none of their major concerns are met - on agriculture the NIC's and services - the US could end by refusing to go along with the conclusions of the meeting. If they did so, and if our own major concerns were also not met, we should have to consider our position very carefully. But I hope things do not come to that. An outcome in which the major trading nations in formal session publicly disagreed over the rules governing trade would be very serious for GATT.

I am sending copies of this to other Members of Cabinet and to Sir Robert Armstrong.

RP LORD COCKFIELD

Approved by the Secretary of State & signed in his absence.

Department of Trade
1 Victoria Street
LONDON SW1
24 November 1982

cc Press Office
AJC

STATEMENT ON THE FOREIGN AFFAIRS COUNCIL, BRUSSELS, 22-23 NOVEMBER 1982 TO BE MADE BY THE SECRETARY OF STATE FOR FOREIGN AND COMMONEALTH AFFAIRS IN THE HOUSE OF COMMONS ON WEDNESDAY 24 NOVEMBER 1982.

With permission, Mr Speaker, I will make a statement on the Foreign Affairs Council held in Brussels on the 22nd and 23 November. The Council dealt with a heavy agenda and reached agreement on a number of issues.

The Council had a first exchange of views on the Commission's paper on the budget solution for 1983 and later. It was agreed that the Committee of Permanent Representatives should get to work on this immediately and report back to the Council at its January meeting.

We discussed East-West trade issues and agreed that we should carry forward the studies approved in the recent Washington talks. Our objective is to improve our cooperation in this field and to achieve a greater cohesion in our approach to East-West trade.

The Council also discussed developments in the final preparations for the GATT Ministerial meeting. The Community will continue to press for improvements in certain areas and the Council will meet again in Geneva if necessary. My hon and learned friend the Minister for Trade, who was present at the Council, is now in Geneva for the GATT Meeting.

The Council agreed in principle on the details of the Community's Generalised Scheme of Preferences for 1983. Ministers noted the progress made in the past month in the bilateral textile negotiations under the Multi-Fibre Agreement with the ASEAN countries and Brazil. The Council also agreed that the Commission should proceed with negotiations with the three dominant suppliers (Hong Kong, South Korea and Macao) making full use as necessary of the flexibility available to them within the global ceilings.

TO BE CHECKED AGAINST DELIVERY

Ministers discussed the Community's external steel regime for 1983. They agreed that the Commission should open negotiations on Voluntary Restraint Arrangements (VRAs) with main third country suppliers of steel to the Community, on the basis of a cutback of twelve and a half per cent in import volume in relation to the 1980 base year.

We raised the problem of the trading imbalance under the EC/Spain Agreement and asked for a Commission report with proposals for action on Spanish implementation of the Agreement, and on the unequal and unjustifiable tariff imbalance in certain sensitive areas.

Ministers agreed a special aid programme for Central America. They approved a new Management Regulation designed to improve the procedures governing the Community's Food Aid Programme. Discussions will continue on other subjects, including the Community's research programme on nuclear safety, the European Parliament's proposals for a uniform electoral system, and a Commission memorandum on the follow-up to the second Lomé Convention.

A Ministerial Conference with the Portugese in the margins of the Council reviewed progress in the accession negotiations.

Ministers also met in the framework of Political Cooperation and discussed a number of foreign policy issues including East-West relations and the Middle East. It was agreed that the Danish Foreign Minister should visit Israel shortly in order to put the Ten's views on the current situation. As applicant members of the Community the Spanish and Portugese Foreign Ministers were present for part of the meeting.

FCE SW

Trade

10 DOWNING STREET

From the Private Secretary

22 November, 1982

C

The Prime Minister was most grateful for your letter of 17 November enclosing a list of US Protectionist Measures and Subsidies. She found this a very useful document.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office).

A. J. COLES

John Rhodes, Esq.,
Department of Trade

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DEPARTMENT OF TRADE

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Press briefing

November 1982

GATT MINISTERIAL MEETING

A meeting of the trade ministers from the 88 nations which are signatories of GATT (the General Agreement on Tariffs and Trade) takes place in Geneva from 24 to 27 November 1982. This is the first such meeting for ten years.

You are free to draw on the attached information as background to the importance of international trade to the United Kingdom.

This paper also contains details of areas where restrictions on imports into the UK exist.

THE VALUE OF TRADE TO THE UK

In 1981 the UK had a current account surplus of £6 billion. In 1980 the surplus was £2.9 billion, a turnround on the deficit of £0.9 billion in 1979. This was mainly accounted for by the movement in the visible trade balance from a deficit of £3.4 billion in 1979 to a surplus of £1.2 billion in 1981.

UK TRADE IN 1981

£ billion, BOP Basis

	CREDITS	DEBITS	BALANCE
Goods of which:	51.1	48.1	+3.0
Manufactures	35.0	30.2	+4.7
Oil (including oil products)	9.1	6.1	+3.1
Services	16.8	12.8	+4.0
Goods and Services	67.9	60.9	+7.0
Goods and Invisibles (ie services, interest, profits and dividends, and transfers)	80.4	74.4	+6.0

THE IMPORTANCE OF EXPORTS TO THE UK ECONOMY

UK exports of goods and services as a proportion of GDP are higher than those of any other major industrialised nation.

EXPORTS OF GOODS AND SERVICES AS A PERCENTAGE OF GDP AT MARKET PRICES

	1965	1970	1975	1980
UK	20	24	27	28
USA	5	5½	8½	10
FR Germany	18	21	25	27
France	14	16	20	22
Italy	16	18	23	25
Japan	11	11	13	14

EXPORTS PER HEAD

UK exports of goods and services per capita are roughly twice those of Japan, but less than those of Germany and France.

EXPORTS OF GOODS AND SERVICES PER CAPITA
1980

	Goods and Services	of which Goods
	£	£
UK	1140	850
USA	490	410
F R Germany	1540	1320
France	1170	not available
Italy	750	590
Japan	540	470

EXPORTS TO DEVELOPED AND DEVELOPING COUNTRIES

The newly industrialised countries took 12 per cent of UK exports in 1980. In general, the UK has deficits on trade in manufactured goods with other developed countries, and surpluses with developing countries.

UK TRADE PERFORMANCE IN MANUFACTURES BY AREA
OTS BASIS
Exports/Imports Ratio%

	1970	1979	1980	1981	Balance 1981 £bn
European Community	131	80	88	81	-3.0
Rest of Western Europe	120	77	97	88	-0.6
North America	83	89	73	79	-1.1
Other Developed Countries	310	115	108	103	+0.1
Oil Exporting Countries	1063	1230	932	1512	+4.9
Other Developing Countries	236	194	205	186	+2.3
Centrally Planned	229	185	213	172	+0.3
Total Trade in Manufactures	149	104	111	109	+2.9

WHAT THE UK EXPORTS AND IMPORTS

Historically, the United Kingdom has been a net importer of food and raw materials and a net exporter of manufactured goods. In the early post-war years, food and beverages, and basic materials, each accounted for nearly two-fifths of imports, and manufactured goods for about four-fifths of exports. In recent years, although manufactured goods are still responsible for the bulk of exports, the import pattern has changed dramatically with food and raw materials together accounting for a third of arrivals. A major change has occurred in manufactured imports which have grown from 18 per cent of the total import bill in 1950 to over 60 per cent in 1981.

UK EXPORTS BY COMMODITY

	Percentages					
	1965	1970	1975	1980	1981 %	1981 £bn
Food, Beverages and Tobacco	7	6	7	7	7	3.6
Basic Materials	4	3	3	3	2½	1.3
Fuels	3	3	4	14	19	9.6
Manufactures of which:	83	84	82	74	68	34.9
Semi	34	34	30	30	26	13.3
Finished	49	50	51	44	42	21.6
Miscellaneous	4	3	4	3	3	1.5
TOTAL	100	100	100	100	100	50.8

OTS Basis

UK IMPORTS BY COMMODITY

	Percentages					
	1965	1970	1975	1980	1981 %	1981 £bn
Food, Beverages and Tobacco	30	22	18	12	13	6.5
Basic Materials	19	16	10	8	8	4.0
Fuels	11	10	18	14	14	7.3
Manufactures of which:	39	50	52	63	62	32.1
Semi	24	27	24	27	24	12.6
Finished	15	23	28	36	38	19.5
Miscellaneous	1	1	2	3	3	1.5
TOTAL	100	100	100	100	100	51.3

OTS Basis

GEOGRAPHICAL STRUCTURE OF UK TRADE

Historically, the lion's share of UK trade was with the Commonwealth, with its traditional ties and tariff preference. In 1950, about 40 per cent of British trade was with Commonwealth countries and around 30 per cent with Europe. Now, as Commonwealth preferences have been eroded the UK share is close to what might be expected on economic grounds, and with entry to the European Community, this pattern has been reversed with the Commonwealth responsible for less than 15 per cent and Europe over a half. The seventies saw the emergence of the oil-exporting countries as a major market for the United Kingdom's exports. In value terms, UK exports are currently running at about twice the level of imports from these countries.

UK EXPORTS OF GOODS BY AREA — BOP Basis

	1965	1970	1975	1980	1981	
	Percentages				%	£bn
European Community	26	30	32	43	41	20.9
Rest of Western Europe	15	16	11	14	13	6.5
North America	15	15	12	11	14	7.1
Other Developed	15	12	9½	5½	5½	2.9
TOTAL DEVELOPED	72	73	69	74	73	37.4
Oil exporting	5½	6	12	10	12	6.0
Other developing and centrally planned	23	21	19	16	15	7.7
TOTAL	100	100	100	100	100	51.1

UK IMPORTS OF GOODS BY AREA — BOP Basis

	1965	1970	1975	1980	1981	
	Percentages				%	£bn
European Community	25	28	39	43	43	20.8
Rest of Western Europe	12	16	14	15	16	7.5
North America	20	21	13	15	15	7.1
Other Developed	12	10	8	6	6½	3.2
TOTAL DEVELOPED	69	75	74	79	80	38.6
Oil exporting	9	7½	13	8½	7	3.5
Other developing and centrally planned	22	18	13	12	12	6.0
TOTAL	100	100	100	100	100	48.1

BRITAIN's TOP 20 TRADING PARTNERS IN 1981

	Exports to	£m	% of Total Exports		Imports from	£m	% of Total Exports
1	USA and Dependencies	6269.6	12.3	1	USA and Dependencies	6080.6	11.9
2	F R Germany	5518.0	10.8	2	F R Germany	5944.0	11.6
3	Netherlands	4019.6	7.9	3	France	3958.1	7.7
4	France	3626.2	7.1	4	Netherlands	3902.1	7.6
5	Ireland	2813.7	5.5	5	Belgium/Luxembourg	2452.2	4.8
6	Belgium/Luxembourg	2092.0	4.1	6	Italy	2337.7	4.6
7	Italy	1742.6	3.4	7	Japan	2203.1	4.3
8	Sweden	1602.5	3.1	8	Norway	1942.4	3.8
9	Switzerland	1458.7	2.9	9	Saudi Arabia	1895.1	3.7
10	Nigeria	1428.2	2.8	10	Irish Republic	1782.1	3.5
11	South Africa	1218.8	2.4	11	Switzerland	1708.0	3.3
12	Saudi Arabia	1133.4	2.2	12	Sweden	1533.9	3.0
13	Denmark	1056.2	2.1	13	Canada	1509.9	2.9
14	Norway	877.0	1.7	14	Denmark	1179.1	2.3
15	Australia	862.0	1.7	15	Hong Kong	897.3	1.8
16	Canada	847.3	1.7	16	Finland	846.3	1.7
17	Spain	741.3	1.5	17	Spain	791.8	1.5
18	India	639.1	1.3	18	South Africa	652.0	1.3
19	Iraq	624.0	1.2	19	Kuwait	476.0	0.9
20	Japan	620.0	1.2	20	New Zealand	428.4	0.8

EXPORTS AND JOBS

British manufacturing industry provides about 6 million jobs, and about one quarter of total output is exported.

EXPORTS OF SERVICES

Between 1980 and 1981, Britain's invisible export earnings increased from £24 billion to over £26 billion. Exports of Services in 1981 totalled £17 billion - a 20% volume increase on 1971.

The UK private sector and public corporations have a large surplus on invisibles transactions.

In the last decade, all the main service sectors except shipping grew in real terms. Civil aviation (£2.4 billion in 1981) more than doubled; travel (£3 billion) rose by over a half in real terms); miscellaneous services (£5.2 billion) rose 40%. Financial services (£2 billion) rose more modestly. UK earnings from activities like financial and consultancy services are greater than any other country in the world, including the USA.

UK INVISIBLE CREDITS

	1965	1970	1975	1980	1981
			£ billion		
Private sector and public corporations					
Sea Transport	0.7	1.4	2.7	3.8	3.8
Civil Aviation	0.2	0.3	0.8	2.2	2.4
Travel	0.2	0.4	1.2	3.0	3.0
Financial institutions	0.1	0.4	1.0	1.6	2.0
Other Services	0.5	0.8	2.1	4.8	5.2
TOTAL	1.7	3.4	7.7	15.4	16.3

TEXTILES

Under the Multi-Fibre Arrangement (which is currently being re-negotiated)the imports to the UK of most textiles and clothing are restricted from many developing countries. There are similar voluntary agreements with some other developing countries. The result is that most such imports from all developing countries are restricted.

In 1980 the UK exported textiles to the value of £1,363 million (£945 million more than in 1970). Imports of textiles totalled £1545 million (£1,258 million more than in 1970). Imports from low-cost producers account for only 12% of the UK market, of these 95% are subject to some form of import control.

IMPORT RESTRAINT

Over the last 20 years, both in the UK and other developed market economies, tariffs have been lowered and, additionally, more imports have been admitted duty free. In the UK, for example, in 1960 only 30 per cent of manufactured goods were admitted duty free and these were mainly from the Commonwealth Preference Area. By 1980 this figure had risen to 80 per cent mainly,but not only,as a result of UK membership of the European Community (EC). (In 1980 the EC accounted for 49 per cent of UK imports of manufactured goods.) In addition to the EC many imports from developing countries were admitted duty free under the Generalised System of Preferences and the Lomé Agreement. On the other hand UK accession to the EC meant that most imports from the Commonwealth ceased to be admitted duty free.

Besides tariffs there are a number of other restraints on imports into the UK which affect the following products or sources (in addition to textiles and clothing which is dealt with above).

Agricultural products. Under the Common Agricultural Policy the main temperate imports are subject to mechanisms such as a variable imports levy. Many of the Lomé and GSP concessions are for agricultural products, however, and the EC is a substantial net importer of agricultural products.

Steel products. The Treaty of Paris, which set up the European Coal and Steel Community (ECSC), enables the Community to exercise control over imports from third countries of products falling within the treaty. This control has been exercised in recent years by negotiating voluntary restraint arrangements (VRA's) with the Governments of major exporting countries and by the setting of import reference prices as an aid to anti-dumping.

Japan

Voluntary restraint arrangements cover cars, light commercial vehicles, pottery, cutlery, colour and portable monochrome television sets and music centres.

State trading countries. There are a number of quotas in existence on imports of certain products (eg matches, gloves, footwear, headgear, pottery, TVs, etc) from the state trading countries. There are also a small number of VRA's negotiated on the UK's behalf by the European Commission.

Footwear. There is a quota on non-leather footwear from Taiwan and an inter-industry arrangement covering all footwear from South Korea. There are also voluntary restraints on imports of leather footwear from some Eastern European countries and some formal quantitative restrictions on non-leather footwear from some Eastern countries and China.

Consumer electronics. There are various inter-industry arrangements covering imports of a number of products from Singapore, Thailand, South Korea and Taiwan (in addition to those covering Japan).

Miscellaneous restraints. There are a few restraints which do not fall under the above headings. The most notable ones are those on imports of phosphate fertilizers and on imports of jute.

In 1980, less than 10 per cent of Britain's total imports were subject to some form of non-tariff restraint, with industrial products accounting for about half of these. If imports from the European Community are subtracted, the proportion of imports restrained is still well under 15 per cent.

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Prime Minister

A.J.C. 14/11

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

The Rt Hon Lord Cockfield
Secretary of State for Trade
1 Victoria Street
London SW1H OET

19 November 1982

Dear Arthur

TRADE POLICY

I agree with you that the time is now ripe for a concerted push against the barriers to free trade in manufactured goods and services which some countries maintain. I particularly agree that we should back the USA in pressing the NIC's progressively to apply GATT rules. The IMF could have a significant role here. However, I believe that in the case of Japan, the unilateral action which you propose is likely to be less effective than international action.

Japan's exports are, of course, narrowly focussed on a handful of industrial sectors. Nevertheless, there are significant dangers in the growing use of voluntary restraint agreements. In particular, they fail to deal with the crucial problem of the undervaluation of the Yen. Blocking Japanese exports, product by product, is like trying to repair a tyre without removing the nail; the leak simply reappears in another place. Our previous restrictions have shifted Japanese competitiveness first from steel to ships, then to cars and now to electronics and machine tools. Moreover, voluntary restraints are increasingly likely to be circumvented as Japanese firms relocate production in other countries eg cars.

Since 1978, the Yen is supposed to have been cleanly floating, but tight fiscal policy combined with a slack monetary regime has driven Japanese interest rates below those elsewhere and resultant capital outflows have maintained the undervaluation.

The Japanese current account has turned around from a deficit in 1980 to a surplus of nearly $6 billion in 1981; for 1982 the OECD forecast a surplus of $17 billion with the prospect of a further doubling in 1983.

What needs to be done is for the international community to exert more pressure on Japan to place greater reliance on domestic growth. This involves bringing investment into line with the high levels of savings and adopting an appropriate structure of Yen interest rates so that an unduly easy monetary policy does not hinder the recovery of the Yen exchange rate. Much could be done to promote an international market in Yen banking as making Yen easier to hold would help get its exchange rate to more appropriate levels.

At next week's GATT meeting I would hope you would be arguing for the international community to exert active pressure on recalcitrant economies to liberalise their trade and to adopt the appropriate exchange rates that would enable them to uphold the spirit of previous negotiations. On a superficial reading, Article 23 of the GATT seems to be the appropriate instrument for exerting that pressure. Does this not point to our pressing for a GATT panel to be set up under Article 23 (2) to hear evidence on Japan and to end the inertia into which bilateral consultations under 23(1) have drifted?

Moreover, to the views of Geoffrey Howe, it might be possible to back up pressure in GATT by actions in the IMF. IMF members reacted strongly to Sweden's competitive devaluation earlier this year and they may be prepared to put more teeth into the annual round of surveillance reviews which the IMF conducts with each member on exchange rates, fiscal and monetary balances etc. As you will know, Article VII of the IMF is the appropriate article for dealing with scarce currencies and its clause 3b provides for members collectively to impose limitations on freedom of exchange in the scarce currency. It is true that the scarce currency clause has never yet been invoked and it may be arguable whether the Yen would technically meet the criteria of a scarce currency. Nevertheless, if the Japanese current account grows as sharply as has been projected and if the Yen undervaluation is pushing the world into trade restrictions there is surely a case for considering using Article VII as a means of exerting international pressure on Japan to modify its macroeconomic stance. Perhaps the Treasury could look at this.

I am copying this letter to colleagues on E Committee.

Yours
Nigel

NIGEL LAWSON

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DEPARTMENT OF TRADE
1 VICTORIA STREET
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From the
Minister for Trade

Prime Minister

To note.

A.S.C. 17/11

The Rt Hon Francis Pym MC MP
Secretary of State for
Foreign & Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
London SW1

17 November 1982

Dear Francis

In Arthur Cockfield's absence in the United States I am writing about the line to be taken at the Foreign Affairs Council on 22/23 November which should finalise the Community line for the GATT Ministerial Meeting which opens in Geneva on 24 November. We had a substantial round of correspondence about this in July and our current policy rests on Arthur Cockfield's letter to you of 21 October and replies from Peter Walker of 22 October and your minute of 25 October. As I know you realise, the pace of negotiations in Geneva is now quite fast, and the line I outline below may need to be modified in the light of developments there, and of Arthur's discussions with Bill Brock, the US Trade Representative, in Washington.

E Committee agreed on 28 October (E(82)22nd Meeting) that we should use the opportunity of the GATT Ministerial Meeting to draw attention to the damage caused to the multilateral trading system by some trading partners unfairly restricting access to their markets, particularly when our own market is open to their exports.

This point has been made several times publicly by the Prime Minister, Arthur Cockfield and myself. As E(82)71 recognise, I do not think we can expect the outcome of the GATT Ministerial Meeting to respond fully to our concerns, although we and the Community will continue to press as hard as we can for the maximum recognition of them. We shall also be putting papers to E Committee

on specific points shortly.

The Community's position for the GATT Ministerial Meeting rests on the common position agreed on 29 October taking account of some suggestions the French put forward after some discussion at the October FAC which I attended in Luxembourg. The Commission is currently negotiating on the basis of these guidelines in the intensive preparatory work in Geneva now fully underway, and we shall not know in detail until just before the FAC next Monday exactly how far the Commission has been able to get the Community line accepted, and where the outstanding difficulties the Council will have to address may arise. I summarise briefly below for the information of colleagues our latest information on developments, but at this stage I have no reason to ask colleagues to agree any modification to the UK policy lines already established, particularly in Arthur's letter of 21 October. If in pursuing these, I run into serious difficulties at the Council or at the Ministerial Meeting itself I shall naturally get in touch urgently with colleagues.

The latest state of play in what is a very fluid situation in Geneva is as follows:-

(a) There are two rather different diagnoses of what underlies the recession in trade and rise of protectionism. Broadly the EC view, most clearly articulated by the French, is that it results from a range of wider economic causes; on the other hand the GATT view, which among others, the West Germans tend to share, is that the failure of Contracting Parties to observe GATT rules is responsible. We find the French view much more convincing, and the EC is therefore working to get their assessment incorporated into the Ministerial Declaration. Even so, we may find ourselves unable to move beyond a draft which presents both assessments, and then goes on to bring out areas of agreement. This does not seem to me to be an unsatisfactory outcome. It would avoid the embarrassment of a row on the question of diagnosis, in which France and W Germany are in opposite camps, becoming the major crisis of the Ministerial Meeting. I therefore hope that we can accept a draft which reflects the EC view, but does not necessarily exclude all reference to other views as well.

(b) Earlier texts on a ceasefire, on new protective measures (in origin the Australian "standstill" proposal), have been considerably watered down and the agreed Community position is in terms of resisting protectionist pressures with any ceasefire on a "best endeavours" basis. I see no point in an agreement at the Ministerial Meeting if it creates unjustified expectations on the part of others that the Community is prepared to limit its GATT rights or forego opportunities to take protective measures consistent with its GATT obligations in grey areas.

(c) On safeguards, several partners continue high profile last minute manoeuvrings but it seems most likely that agreement will be limited to a mandate for continuing negotiations, with perhaps an interim agreement on transparency for inter-governmental (but not inter-industry) grey area measures. I have no intention in any case of abandoning our insistence that in the last resort we must be able to take selective action.

(d) On agriculture, the basis for an agreement which we thought we saw earlier on a substantial GATT work programme seems to be imperilled by American insistence on a political acceptance that export subsidies are the main problem and need to be tackled urgently. It is most unlikely that the Community will accept such an explicit statement and, in tactical response, to this pressure the Commission has also stood firm on estabished positions. However this is a fast moving negotiation in which events will inevitably overtake this letter. I expect this will be one of the crunch points at the Ministerial Meeting but is not one where the UK is directly engaged or will be seen as a principal obstacle to progress.

(e) There are the first signs that the Community idea, on which we are close to the Swiss, that there should be a feasibility study of methods of negotiation between developed and developing countries is gaining greater acceptance. I appreciate that the US will view this as a weaker approach than that advocated

by them. But it is clear from attitudes in Geneva that a tougher approach will not succeed in forcing the NICs to the table. Multilateral work in the GATT cannot be our main method of tackling major inequalities of access with the NICs, and would not be inconsistent with any decisions that E Committee might take, but it would be a useful step forward if we could get agreement on GATT work. This would amount to acceptance in a multilateral framework that our concerns were legitimate and be a useful way of pressing forward our views.

(f) I am clear that there must be improvement in the present procedures for dispute settlement and in particular there must be no additional scope for a party in clear breach of its GATT obligations to veto the conclusions of a Panel Report. However the Community appears to be isolated in resisting some rather simplistic proposals. We believe these go too far in limiting the right of the Contracting Party, against whom complaint has been brought, to participate in the GATT consensus forming process and veto the adoption of decisions which it feels completely unacceptable. But the Commission has not yet deployed fully the degree of flexibility which the agreed Community mandate gives it and I by no means despair of the possibility of an agreement that should prevent mis-use of a veto, as the Americans did in the DISC case.

(g) Progress on services has proved difficult. We are giving the US all possible support in working for agreement on a GATT study of service trade issues, though they are playing their hand very clumsily. If agreement can be reached, we will be able to point to this as a substantial plus point for the UK to have come out of the meeting. In any case I think it of growing importance that the USA - and indeed ourselves - should not leave Geneva "empty handed"; the protectionist pressures which already exist in the US Congress would only be aggravated by any "failure" in Geneva, with very serious dangers to the whole future of the world open trading system.

I am sending copies of this letter to the Prime Minister, to the members of the OD(E) and to Sir Robert Armstrong.

Yours ever Peter

PETER REES

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

(4)

Prime Minister
You asked for this list.
A.J.C. 18/11

From the Secretary of State

John Coles Esq
10 Downing Street
London SW1

17 November 1982

A very useful document

Dear John

GATT MINISTERIALS - MESSAGE FROM MR SHULTZ

Thank you for your letter of 8 November. I enclose a copy of an illustrative list drawn up by this Department of what we perceive as protectionist US measures and subsidies.

I am copying this letter and its enclosures to Roger Bone in the FCO.

Yours sincerely,

JOHN RHODES
Private Secretary

CONFIDENTIAL

ILLUSTRATIVE LIST OF US PROTECTIONIST MEASURES AND SUBSIDIES

Direct

a) Section 301 of the US Trade Act 1974

Gives the US President broad authority to retaliate inter alia against unjustifiable, unreasonable or discriminating acts, policies or practices which burden US commerce. It is distinct from the anti-dumping and countervailing laws embodied in the 1979 Trade Agreements Act and which broadly implement in US law the relevant Codes agreed in the Tokyo Round. Its catch-all nature, and provision for the US petitioners to secure reliefs outside the GATT framework make it particularly offensive in the eyes of the US's main trading partners. Voices in Congress are calling for S.301 to be toughened as part of the campaign for "reciprocity" in trade matters, eg by opening up services or international investment as areas where retaliation against the unfair trade practices of other countries may be directed.

b) Section 337 of the US Tariff Act 1930 (as amended by S. 341 of the Trade Act 1974)

Provides that "... unfair methods of competition or unfair acts in the importation of articles into the United States, or in their sale ... the effect or tendency of which is to destroy, substantially injure or prevent the establishment of an industry in the US, or to restrain or monopolise trade and commerce in the US, are unlawful". petitions by US industries exporting to the US, who cannot afford high legal fees to defend themselves. Often used in patent cases (relief can be obtained quicker than under existing US patent law). Notified to GATT as a non-tariff barrier by the European Commission in February 1982.

c) "Buy American" Legislation

Less of a problem since the US implemented the GATT Government Procurement Agreement in 1981, although it remains an objectionable and very effective barrier, eg in some areas of purchasing for public transport. Also the GATT Agreement effectively only covers federal purchasing. The individual states are virtually untouched by the Agreement. Many have their own "Buy American" legislation.

d) Legislation affecting shipping (Brief No 10 deals with this in more detail)

The Jones Act 1920 provides that vessels transporting merchandise or passengers in the US "coastwise" trade must be owned by a US citizen, US built and US registered. It thus afford substantial protection to US shipping and the US shipbuilding industry.

Cargo Preference Act requires that at least 50% of all Government-generated cargo subject to the law be shipped on privately owned US flag commercial vessels if such vessels are available at fair and reasonable rates. All military cargo for use by the United States must be shipped on US flag vessels. These measures afford additional protection to US shipping.

e) Manufacturing Clause in US Copyright Law

In July the Congress over-rode the Presidential veto of a bill to extend the Manufacturing Clause until 1 July 1986. The Manufacturing Clause, which dates back to 1891, effectively prohibits import into the USA of non-domestic literary works in the English Language by authors who are US nationals and which are manufacturerd outside the US. Certain exemptions are made, notably the first

2,000 copies of and work and an examption in favour of Canada. During the Tokyo Round the US gave an oral undertaking to remove this provision and it was due to expire on 1 July 1982 (although this was not formally recorded). Following the extension of the Clause the Community is seeking compensation from the US and consultations are currently underway under GATT Article XXIII.1.

f) DISC (Domestic International Sales Corporation)

In operation since 1971. US manufacturing companies empowered to establish subsidiaries exclusively for the purpose of handling export business. Special tax concessions for DISCs enable US companies to defer tax on half of their export profits for 10 years or more. This is regarded by the GATT as, an export subsidy which contravenes Article XVI of the Agreement and was condemned as such by GATT several years ago. The US after years of resistance has conceded the GATT report, but is still resisting international pressure to abolish DISC.

g) Article XXV Waiver: Agriculture

Under this article of the GATT the US has been granted a waiver which enables it to protect subsidised agricultural sectors, notably dairy, cotton, sugar and peanuts.

Indirect

h) Use of procedures in US antitrust law to place obstacles in the way of acquisition of US companies by foreign companies (all proposed mergers over a certain nominal size must be notified to the US Federal Trade Commission under the provisions of the Hart-Scott-Rodino Act 1976). Such obstacles can occur where the US authorities believe that such acquisitions could be detrimental to the interests (broadly defined) of the US.

i) Excessive litigation flowing from statutory procedures, eg that under anti-dumping and countervailing laws and many different fields of regulation, eg antitrust, environment, securities controls etc. The "contingency fee" system for attorneys. Time and legal expenses tend to frighten away the small/medium foreign companies.

j) Congressional pressures on behalf of sectional interest in a particular industry or geographical area, eg against imports of Japanese cars, uranium imports (which spawned the notorius Westinghouse case in the late 1970s). Such pressures are building up again with the call for "reciprocity" legislation.

Department of Trade
November 1982

Trade - cc. JV.

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

11 November 1982

The Rt Hon The Lord Cockfield
Secretary of State for Trade
1 Victoria Street
London SW1

N.S.I.R.

Dear Arthur.

TRADE WITH SPAIN

PM.

I am afraid that a copy of your minute of 2 November to the Prime Minister reached me only yesterday. I write merely to confirm, should there be any doubt, that what David Howell says in his letter to you of 4 November is right. Use of vehicle type approval requirements, or indeed any other regulatory provision of that sort, for an improper purpose is unlawful and could be the subject of action in our courts. I should add that this has nothing to do with Community law: it is a basic proposition of our own system of administrative law.

Yours ever

Michael

Sec P

Trade

10 DOWNING STREET

From the Private Secretary 8 November 1982

GATT MINISTERIAL - MESSAGE FROM MR. SHULTZ

The Prime Minister saw a copy of Mr. Shultz's message to the Foreign and Commonwealth Secretary (Roger Bone's letter to you of 4 November refers). She has asked what measures of protection the United States employs. I should be grateful for an account of these as soon as possible.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office).

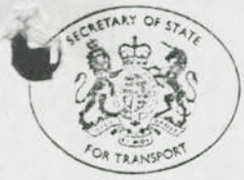
b/f

A. J. COLES

John Rhodes, Esq.,
Department of Trade.

CONFIDENTIAL

SC JV



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

2

The Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON SW1

4 November 1982

Prime Minister

Dear Arthur

SPAIN

4/11

TPM

I have seen a copy of your minute of 2 November to the Prime Minister on trade with Spain.

You propose that we consider how we might emulate French practice in administering type approval requirements so as to exclude unwelcome imports. I am certainly ready for my officials to join those from other Departments to discuss their practice with French officials. But I must make it clear that my legal advice is that, if I adopted a policy of delaying the issue of type approval in the case of vehicles imported from Spain, I would be acting unlawfully and would be exposed to High Court actions by the importers and any other interests involved. The possibility of claims for damages would follow. If therefore it emerged that there were some scope for adopting French tactics here, I should need to consider the legal position very carefully.

I am sending copies of this letter to the Prime Minister, to other members of E Committee, to the Attorney General and to Sir Robert Armstrong.

Yours ever

David

DAVID HOWELL

Trade : Non Tariff Barriers Pt 2

cc Econ Pol ECON POL

CONFIDENTIAL

(1) Prime Minister

To note

MCS 4/11

(2) Mr Coles

PRIME MINISTER

I refer to the Chancellor's minute of 19 October proposing measures to reduce export credit risks and subsidies. I comment also on the question of ECGD exposure worldwide and in Mexico which Cabinet raised last month.

The measures proposed by the Chancellor provide a basis for officials of the Departments concerned to draw up some new operating guidelines. But officials need also be instructed to have regard to broader aspects of the problem because it is essential that we get the right balance between financial prudence and the interests of our exporters at a time of continued recession and difficulty.

First, I would strongly underline what the Chancellor says about export interest rate subsidies and credit risks being different issues. Unless our export interest rates match those of our competitors, we will inevitably lose business in many perfectly creditworthy markets. And a substantial proportion of our exports to riskier markets, being on short-term credit, do not attract interest rate subsidy. As the Chancellor notes, the essential control on interest rate subsidies is the level at which the Consensus rates are set. The last two consensus negotiations, together with favourable movements of commercial rates, have markedly reduced the subsidy burden in respect of all markets. I am reluctant to follow him in seeking to anticipate the next round of negotiations. But I do agree that we should seek to persuade our partners to resist a return to the very high subsidy costs of a year or two ago, especially for exports to the rich countries. The Consensus is of particular importance to the competitive position of United Kingdom project exports and I shall be getting advice from the Overseas Projects Board before the next round of negotiations.

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Secondly, the controls suggested by the Chancellor could be a useful reinforcement to existing mechanisms governing ECGD exposure provided that:-

(i) they are not operated in an unduly rigid fashion;

(ii) they are relaxed as and when circumstances permit; and

(iii) they have regard to the fact that companies cannot swiftly switch from one export market to another - market positions can take much time and money to establish.

I agree, however, that there is a need for prudence in limiting ECGD's credit exposure on markets facing debt service difficulties; and that the country risk should be given more weight in future. I would like official efforts in this direction to be focussed on ECGD's Section 2 (National Interest) operation. I see no cause for breaking the long tradition of relying upon ECGD's statutory Advisory Council's commercial advice in respect of Section 1 operations. I would also hope that any proposed global limit on ECGD's Section 2 exposure - for which I see no strong case - would not be used to force ECGD into an ultra-cautious policy. This would carry the following dangers:-

(a) it would drastically reduce the export opportunities for British exporters (and markets once lost are difficult to recover);

(b) it might in fact lead to more country defaults if it added to the growing crisis of confidence amongst international commercial lenders; and

(c) it could have a long-term effect on the viability of the ECGD scheme by undermining the insurance concept of spead on which it has been built.

Thirdly, I agree that we should have a procedure whereby more of the major projects,for which a competitive financial package has to involve a large amount of subsidy to the customer, should come to Ministers for collective decision. But we should not try to fix some arbitrary limits of acceptability in advance. The various elements in the judgement are too complex for that. And we owe it to our exporters to ensure that such a procedure is operated with the speed required by an intensively competitive market-place.

As to the present position on ECGD's exposure worldwide and in Mexico, I attach two notes summarising the situation. On Mexico, ECGD has already taken steps to avoid adding to its substantial existing exposure for the time being; but I believe that we should avoid any announcement that it is off cover. The situation there could improve fairly rapidly if the present rescue negotiations are carried through successfully; and there is a real risk that an announcement of the withdrawal of ECGD cover would affect the confidence of other lenders.

ECGD's exposure worldwide now totals some £28,600 million. This is reasonably well spread both by markets and by category of export. A large part of it concerns goods sold on cash or short-term credit; and exports to safe, developed markets. Support for exports to the weaker, developing countries is carefully controlled by the ECGD Advisory Council, and by the official Export Guarantees Committee which considers Section 2 applications. It is not possible for ECGD to reduce its exposure quickly since the bulk of its liabilities represent contracts already obtained and in the course of completion. Nothing leads to more ill will than withdrawal of cover from business already being negotiated. But action has already been taken to withdraw cover for future business with a number of countries already experiencing debt service difficulties. The existing procedures

for careful scrutiny of the forward country risk, together with the new controls that the Chancellor has proposed, are adequate to ensure that ECGD exposure on highly vulnerable overseas markets does not reach an unacceptable level.

I am sending copies of this minute to the Chancellor, other members of EX, and to Sir Robert Armstrong.

Arthur Cockfield

LORD COCKFIELD

Department of Trade
1 Victoria Street
London, SW1H OET

4 November 1982

MEXICO - ECGD'S POSITION

Mexico is currently the fourth largest market in ECGD's portfolio. Whilst there is no way that the existing exposure can be quickly reduced (as it relates to cover for contracts already signed) action has already been taken to restrict future cover very closely whilst Mexico's debt service problems persist.

Present arrangements for cover

a Short Term credits (up to 180 days)

Cover remains available without formal restriction but ECGD is operating close control over all new applications at present. The volume of this business is not substantial.

b Medium and Long Term credits (normally up to 10 years maximum)

Reduced market limits have now been applied as follows:

Section 1 (commercial account) - £650m

Section 2 (national interest account) - £600m.

The bulk of these limits has already been utilised (only about £75m being uncommitted). Most of this will be needed to support contracts which have already been signed but where the guarantee has yet to be issued, and potential contracts where the negotiations have reached a very advanced stage. However for the time being ECGD is exercising administrative delay in dealing with all new applications for cover.

c Country grading

Mexico has been downgraded from 'B' to 'C' in view of its deteriorating economic outlook (but ECGD's claims experience so far remains good).

Current exposure

ECGD's maximum exposure now totals £1203 million. This relates to firm business where the contracts have been signed and the guarantees issued and includes provisions for future interest payments. Apart from an estimated amount at risk of £28m for Short Term business, the exposure relates to Medium and Long Term credits with payments maturing over the next 20 years.

Specific Cases

i Sunderland Shipbuilders/Trans. Maritima Mexicano (TMM)

This contract valued at £20.8m was signed on 18 June 1982. No ECGD guarantee has as yet been issued but it would be contrary to established practice to refuse to cover a contract signed in all good faith against the Department's indication that cover would be available.

ii Sunderland Shipbuilders/TMM

No contract (potential value £21.5m) has as yet been signed but the builders have reportedly entered into an "agreement to supply" 2 ships of which item i. is the first and this the second. There is no formal ECGD commitment to provide cover for this additional vessel and ECGD does not propose to offer support under current circumstances. (This decision will probably lead to strong protests from the builders).

iii Sicartsa Steel Mill

This is a firm commitment and accounts for approximately £465m of the total exposure of £1203m on Mexico. Following the signing of a Memorandum of Understanding between the Prime Minister and President Portillo, Davy Loewy entered into contracts in February 1982 valued at £350m with a UK content of £200m. This represented Mexico's largest ever export order and will provide 28,000 man years of work for UK industry. Finance is being provided by an ATP grant of £35m and ECGD supported export credits of £197m and Dm 151m at a fixed rate of 7¾% with repayments over 13 years after a 2 year grace period. Loan agreements and ECGD guarantees were signed on 14 April 1982 and, as the contract will take 5 years to complete, final payment will not be due until 2002.

ECGD is legally committed to cover the Davy Loewy contracts and there are no grounds which would allow the Department to withdraw at this stage. Even were the project to be cancelled by the Mexicans there would be termination costs to be funded by loan drawings. In addition ATP funds of £32m have been advanced.

Repayment of principal of the ECGD guaranteed loans is not due to commence until 1989, hopefully well beyond the current period of financial difficulty.

ECGD'S WORLDWIDE EXPOSURE - SEPTEMBER 1982

(Note by Export Credits Guarantee Department)

Introduction

1 This paper reviews ECGD's exposure at the present time and looks in particular at its exposure on vulnerable overseas markets. Like all its counterparts overseas, ECGD is currently passing through a very difficult period in its operations. Because of the world recession major country defaults in addition to the financial difficulties of individual buyers overseas have reached unprecedented levels. Over the last five financial years ECGD has paid claims totalling over £1000 million, against a premium income of about £750 million. Reserves built up in earlier years have thus been sharply reduced. Approximately 65% of claims paid relate to general country problems (delays in transferring foreign exchange etc). ECGD covers about 30% of total British exports but a very much higher proportion of exports of manufactured goods and capital plant which are traditionally sold on Medium and Long Term credit. The Department's business has been based on the concept of spread of risk and covers a wide range of exports to all viable overseas markets. However, because of difficult world trading conditions many important overseas markets are now vulnerable to debt service problems. ECGD's exposure on these is analysed below but it should be noted that ECGD's commitments on an overseas market cannot be reduced quickly as the current amount at risk relates to guarantees issued over recent years insuring contracts at various stages of completion. However the exposure figures, which reflect the maximum amount that the Department has guaranteed including future interest payments, greatly exceed the probable amount of loss that ECGD would suffer if a country defaulted. Even in the unlikely event of a country reneging on its entire existing debt ECGD's liabilities would be reduced by the savings resulting from the stoppage of shipments and drawings under guaranteed credits and the consequential additional reduction in interest payable under the contracts.

Current worldwide exposure

2 The maximum amount ECGD can guarantee is set by Parliament. At present ECGD is authorised to accept liabilities up to a maximum of £30,000 million in sterling and a further SDR 20,000 million in foreign currencies. The actual total amount at risk worldwide is currently estimated at £28,600 million. The comparable figure 3 years ago was £17,000 million. Of the current amount at risk Short Term business (ie where payment is to be made within 180 days) accounts for £4,200 million (£3,900 million). ECGD credit exposure involving repayment terms of 2 years or more is of the order of £24,400 million, (£13,100 million). Of this about 48% is covered under the Section 1 commercial account and 52% under Section 2 national interest account. In general it is the Department's credit exposure - rather than its revolving Short Term business - which is most vulnerable to a deterioration in overseas market conditions. The table at Appendix A shows the 30 largest markets by exposure at the present time. Fortunately this includes many markets where there is no immediate threat of a financial crisis. However, those which might be vulnerable to balance of payments or political difficulties are analysed in more detail below.

Horizon of Risk

3 In accordance with international practice (governed mainly by the OECD Consensus arrangements) the maximum credit periods normally supported range from 5 years for richer markets to 10 years for developing countries. Exceptionally, longer terms can apply in certain sectors (eg nuclear power stations). Allowing for the period between contract and delivery/commissioning therefore the

Department's horizon of risk for major projects can reach 15-20 years. (In the case of the Castle Peak B project in Hong Kong for example, the forward exposure period runs up to the year 2002). Therefore, once ECGD has committed itself to guarantee a contract it is locked in for a long period ahead.

Methods of country assessment

4 Long term forecasting of the sort required is far from an exact science and account has to be taken of political developments as well as economic trends. Appendix B describes the present system of country risk assessment and controls. In assessing market risks the Department has access to international financial statistics and the advice from our embassies abroad. Economic and political developments in all significant markets are kept under continuing review. Decisions on Section 1 cover are taken after consultation with the Advisory Council of businessmen and on the basis of a prudent, commercial view of the overseas risks. Requests for cover on the largest and more marginal risks are directed towards the Section 2 (national interest) account. Here the Export Guarantees Committee of interested Departments (chaired by the Treasury) attempts to balance the UK national interest benefits involved in terms of employment etc against the risk of non-repayment. In recent years greater emphasis seems to have been given by the EGC (and Ministers when agreement at official level is not reached) to the industrial/employment arguments than to the risks involved. Consequentially ECGD's exposure on a number of vulnerable markets is higher than it would have wished.

Spread of risk

5 ECGD's cover is reasonably well spread at the present time. However because of the greater opportunities for exporters of engineering goods and capital plant in developing countries exposure on these is rising. The table at Appendix C shows the present geographical spread of business. Mexico (4.9%) and Latin American countries (7.1%), together with the CMEA bloc (9.3%) account for about 21% of the total exposure, and many of these countries fall into the vulnerable category. Potentially the most dangerous concentration of risk is on Hong Kong/China which already represents 13.5% of the total portfolio (and if the current negotiations on the nuclear power project succeed this figure could be doubled). The table at Appendix D shows exposure in relation to each grade of market. Markets are classified on a 4 grade system (A-D) in accordance with the assessment of their vulnerability to economic/political problems; this increases the premium for cover in the riskier markets, "A" being the lowest and "D" the highest risk category. At present the balance between the exposure on the better (A and B markets) and the riskier C and D markets is satisfactory.

Exposure on vulnerable markets

6 The growing number of developing countries which have run into serious debt service difficulties has meant that ECGD has had to withdraw or severely curtail its cover for many important overseas markets. Appendix E lists those for which credit cover under both Section 1 and Section 2 has been withdrawn in the last year or so and other markets for which no cover is currently available. The amounts at risk shown in all cases are in respect of business underwritten before cover was withdrawn. It is important to bear in mind that although cover may formally have been withdrawn, it is always open for sponsoring Departments to submit a case for supporting a particular contract under the Section 2 national interest arrangements. A measure of cover has, for example, been made available

exceptionally for Ghana and Zambia despite the general non-availability of cover. Countries who have rescheduled their debts (or are about to do so) are listed in Appendix F. It is normal practice to withdraw cover for further business on such markets and this would only be restored when it can be demonstrated that the rescheduling agreement is being honoured and circumstances have improved sufficiently to justify further lending.

7 Because of the Department's adverse experience, cover is therefore not available for countries such as Iran, Poland, Romania, Yugoslavia and Cuba, all of whose economic difficulties are well-known. Nor is it intended to restore cover for Argentina under present circumstances. Other important markets that might run into difficulties are listed in Appendix G. Cover for future business on all of these is being carefully controlled. With the exception of Hong Kong and China, monetary limits (see Appendix B) have been set on the total liability the Department can accept without further review on each of the markets listed under both Section 1 and Section 2. In the case of Hong Kong and China there are no formal Section 2 limits but all project business is considered on a case by case basis in consultation with Whitehall Departments.

No new cover is in practice being given for Mexico at present. Cover is also tightly restricted on Brazil, Egypt, Kenya, GDR and Hungary which seem to be the most vulnerable of the other markets listed. Over a longer term both India and China may present problems if the extend their reliance on official export credit, rather than aid, to finance their major investments.

Conclusions

1 ECGD's worldwide exposure is reasonably well spread:both geographically and between the developed and developing world.

2 Nevertheless ECGD has a high exposure on many major markets that might be vulnerable to a debt crisis over the next few years.

3 No action can be taken to reduce the level of ECGD's existing commitments on these markets but strict limits are being applied to additions to the current exposure.

ECGD
September 1982

ECGD

MARKETS RANKED BY TOTAL AMOUNTS AT RISK OUTSIDE SHORT TERM

Position as at April 1982 (last year's ranking in brackets)

	COUNTRY		GRADE	TOTAL AMOUNT AT RISK £m
1	Hong Kong	(1)	A	2893
2	South Africa	(2)	A	1643
3	USA	(3)	A	1491
4	Mexico	(14)	B	1056
5	Brazil	(4)	C	914
6	Poland	(5)	D	899
7	Nigeria	(12)	C	834
8	Yugoslavia	(8)	D	737
9	USSR	(6)	B	734
10	Iran	(13)	D	592
11	India	(10)	C	585
12	South Korea	(9)	B	557
13	Indonesia	(25)	C	531
14	Iraq	(-)	C	460
15	Egypt	(28)	D	402
16	Romania	(11)	D	400
17	Canada	(22)	A	356
18	Dubai	(7)	B	338
19	Oman	(15)	C	308
20	Algeria	(16)	C	305
21	Argentina	(20)	C	284
22	Kenya	(18)	C	279
23	Greece	(-)	A	277
24	Jordan	(-)	C	274
25	China	(17)	B	210
26	Philippines	(24)	C	208
27	Irish Republic	(23)	A	185
28	Switzerland	(-)	A	179
29	Norway	(21)	A	175
30	Liberia	(26)	C	172

APPENDIX B

NOTE ON ECGD'S SYSTEM OF COUNTRY ASSESSMENT AND CONTROLS

System of Assessment

1 ECGD makes assessments of the creditworthiness of overseas markets based on all the available information on economic performance (balance of payments, GDP growth, debt service, reserves, etc) and political developments. ECGD's past experience and commitments are taken into account. In most problem markets limits are set which determine the maximum amount that can be underwritten for that market without further review. These are set after consultation with the Advisory Council of businessmen for Section 1 (commercial account) operations or the inter-Departmental Export Guarantee Committee for Section 2 (national interest) operations. The limits are fixed after taking into account the usual level of demand for cover on the country concerned and represent the maximum amount of exposure for that market. In practice ECGD would not expect to meet claims amounting to the total amount of its exposure even if a country defaulted on all its debts, because many guaranteed contracts would only have been partially completed at the time the default occurred. The table in the Appendix attached gives details of ECGD's current exposure on some of the more vulnerable developing countries.

2 It is important to note that ECGD is not able to take swift evasive action when a debt crisis has become apparent as its commitments run for a long period ahead (allowing for the negotiating, contract completion and credit periods, the Department may need to look 10-20 years ahead). Once a deteriorating trend has been discerned the Department can act to reduce limits or even stop all future cover, but such action is unlikely to affect significantly the amount falling due over the next year or so that might fall for rescheduling if a developing country gets into debt servicing difficulties.

Existing Control Mechanisms

3 The Department's main methods of control over the growth of its liabilities on vulnerable markets are, therefore:-

i country limits applied to the maximum amount at risk on a market (excluding short term business)

and ii a country grading system, which classifies overseas markets in four grades (A to D) in accordance with the assessment of their vulnerability to economic/political problems. This increases the premium charges for medium and long term cover in the riskier markets.

APPENDIX C

ECGD exposure by geographical regions (£m) - Position as at September 1982

	S1	% of total S1 AAR	S2	% of total S2 AAR	Total	% of total AAR
Developed countries:						
EC	691.3	5.9	12.1	0.1	703.4	2.9
Rest of Europe	988.2	8.5	197.6	1.6	1,185.8	4.9
North America	1,043.7	8.9	922.8	7.3	1,966.5	8.1
Others	514.3	4.4	131.6	1.0	645.9	2.7
Developing countries:						
CMEA	820.5	7.0	1,456.2	11.4	2,276.7	9.3
Latin America (excluding Mexico)	753.2	6.4	986.9	7.8	1,740.1	7.1
China, Hong Kong	741.8	6.4	2,554.4	20.1	3,296.2	13.5
Sub-Sahara Africa (inc. South Africa)	2,042.9	17.5	2,002.2	15.7	4,045.1	16.6
Asia (excluding China, Hong Kong)	1,381.7	11.8	1,331.4	10.5	2,713.1	11.1
Middle East	1,318.1	11.3	1,519.0	11.9	2,837.1	11.6
of which oil exporters	868.0	7.4	1,075.6	10.0	1,943.6	8.0

The above Amounts at Risk do not add up to the global Amount at Risk as certain markets eg Caribbean are not included in this Appendix.

APPENDIX D

ECGD exposure by market grades (£m) - Position as at September 1982

Grade	S1	% of total S1 AAR	S2	% of total S2 AAR	Total	% of total AAR
A	4,738.5	40.5	4,360.6	34.2	9,099.1	37.2
B	1,688.9	14.5	1,564.7	12.3	3,253.6	13.3
C	4,480.1	38.3	4,226.5	33.2	8,706.6	35.7
D	788.7	6.7	2,578.2	20.3	3,366.9	13.8

S1 = Section 1 Commercial Account

S2 = Section 2 National Interest Account

AAR = Amount at Risk

Grade A = lowest risk/lowest premium grade

Grade D = highest risk/highest premium grade.

The current distribution of markets over the 4 grades is: A 18.7%; B 10.1%; C 44.4%; D 26.8% out of a total of 198 markets for which we currently have amounts at risk or are open for cover.

APPENDIX E

Major markets for which ECGD cover withdrawn during past 2 years (and not reinstated) (£m) - Position as at September 1982

	S1 AAR	S2 AAR	Total AAR
Poland	161.1	715.7	876.8
Yugoslavia	136.2	575.1	711.3
Romania	53.5	340.7	394.2
Argentina	115.9	152.0	267.9
Tanzania	34.3	57.9	92.2
Cuba	46.3	29.0	75.3
Bolivia	11.2	21.4	32.6
Senegal	26.4	-	26.4
Malawi	11.6	9.8	21.4
Costa Rica	2.9	-	2.9
Dominican Republic	0.2	-	0.2

Other major markets for which no ECGD cover currently available

	S1 AAR	S2 AAR	Total AAR
Iran	59.3	106.0	165.3
Zambia	14.0	91.2	105.2
Turkey	19.4	85.7	105.1
Ghana	8.1	37.0	45.1
Zaire	-	36.7	36.7
Sudan	21.1	9.8	30.9

S1 = Section 1 Commercial Account

S2 = Section 2 National Interest Account

AAR = Amount at Risk

APPENDIX F

RESCHEDULING AGREEMENTS - Position as at September 1982

1) Agreements signed

	£m
Ghana	24.79
Guinea	6.34
Indonesia	9.64
Madagascar	2.43
Peru	6.32
Poland	54.4
Sierra Leone	0.73
Sudan	49.5
Togo	21.0
Turkey	56.30
Zaire	33.26

2) Signatures pending

	£m
Liberia	1.8
Senegal	0.78
Sudan	10.25
Turkey	63.7

3) Negotiations pending on new or extending rescheduling.

Central African Republic - Costa Rica - Guyana - Liberia - Madagascar - Nicaragua - Poland - Romania - Senegal - Sierra Leone - Sudan - Togo - Uganda - Vietnam - Zaire.

APPENDIX G

Markets of high exposure/vulnerability for which
ECGD cover currently available (£m) - Position as at September 1982

	Ranking in "top 30" list of markets by exposure	S1	% of total S1 AAR	S2	% of total S2 AAR	Total	% of total AAR
Hong Kong	1	550.2	4.7	2,538.6	20.0	3,088.8	12.7
South Africa	2	841.2	7.2	734.3	5.8	1,575.5	6.5
Mexico	4	693.3	5.9	468.5	3.7	1,161.8	4.8
Brazil	5	283.8	2.4	709.7	5.6	993.5	4.1
Nigeria	7	767.2	6.6	239.8	1.9	1,007.0	4.1
USSR	9	473.3	4.1	337.2	2.7	810.5	3.3
India	11	291.1	2.5	294.3	2.3	585.4	2.4
South Korea	12	184.7	1.6	346.0	2.7	530.7	2.2
Indonesia	13	232.2	2.0	334.0	2.6	566.2	2.3
Iraq	14	438.5	3.8	92.8	0.7	531.3	2.2
Egypt	15	122.2	1.1	274.7	2.2	396.9	1.6
Kenya	22	58.2	0.5	206.1	1.6	264.3	1.1
Jordan	24	253.1	2.2	83.8	0.7	336.9	1.4
China	25	191.6	1.6	15.8	0.1	207.4 *	0.9
GDR	-	38.9	0.3	61.8	0.5	100.7	0.4
Hungary	-	34.9	0.3	0.8	neg	35.7	0.1

S1 = Section 1 Commercial Account

S2 = Section 2 National Interest Account

AAR = Amount at Risk

* NB If UK obtains nuclear plant contract, AAR would increase by £1000-4000m.

2

Foreign and Commonwealth Office

London SW1A 2AH

4 November 1982

Dear John,

Prime Minister

TF

4/11

GATT Ministerial

The American Ambassador has today forwarded to Mr Pym a letter from George Shultz about the GATT Ministerial. I enclose a copy. The Department will be in touch with DOT officials to coordinate a reply.

I am copying this letter to Private Secretaries to other members of OD.

Yours ever,

Roger Bone

(R B Bone)
Private Secretary

John Rhodes Esq
PS/Secretary of State for Trade

What measures protection does the U.S. operate?

EC(B)
PS
PS/Mr. Hurd
PS/PUS
Mr. Evans
Mr. Hannay
Mr. Thomas
TRED.

EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

November 4, 1982

Dear Foreign Secretary:

I was asked to deliver the enclosed message to you from Secretary Shultz, which was received at the Embassy this morning.

Sincerely,

John J. Louis, Jr.
Ambassador

Enclosure

The Rt. Hon. Francis Pym, MCMP,
Secretary of State for Foreign and
Commonwealth Affairs,
Foreign and Commonwealth Office,
London, SW1.

Dear Francis:

The United Kingdom and the United States have a common interest in a strong and equitable multilateral trade system. In order to sustain and improve this system, particularly during the current period of serious trade tension, we also have a mutual stake in promoting effective international trade rules. The well-being of the institution we cooperatively developed to administer these rules, the GATT, is of major concern to both of us. These shared interests prompt me to request your personal assistance in assuring a productive outcome for the GATT Ministerial meeting in November.

I am encouraged that we are in general agreement on the importance of a successful Ministerial. However, with the meeting only a few weeks away, and with protectionist pressures in many countries intensifying, I am concerned that we must do more to assure a successful outcome. If the Ministerial does not achieve mutually beneficial results, which demonstrate that the GATT can address some of the trade system's pressing problems, it seems to me that the risk of a serious deterioration in world trade relations is very grave.

I am pleased at the progress we have made toward a work program on services. I know that we share a strong interest in an open international regime for services, and appreciate the support you have given to our initiative.

There are three other areas, however, in which I believe it is particularly important for the Ministerial to make progress. The first is safeguards. Without an understanding on the type of measures a country can legitimately take when one of its industries faces injury from imports, the concept of a standstill on protective measures will not find support. At the same time, it is imperative that we find a solution to the problem of selective safeguards, which developing countries perceive as a major threat to their market access. I am convinced that unless we conclude a safeguards agreement with selectivity provisions acceptable to the developing countries, we will lose the impact we need from the

political statement by the GATT Ministers. It seems to me that Secretary General Dunkel's proposal contains the elements of a solution to this problem, and I urge you to give it your support. Unilateral selectivity cannot be the basis of a viable safeguards agreement.

The second area which the Ministerial must address is agricultural trade, including in particular the use of agricultural export subsidies. The long-standing policy differences between the United States and the Community are well known to you. I appreciate that it will not be possible to resolve these differences before the Ministerial. However, it is vital that we agree on a method for discussing these issues within the GATT. In addition, we must agree to initiate GATT discussions which permit significant progress toward resolving these problems in the relatively near term. If we cannot take these steps I am concerned that the frustration of producer groups with the trading system will prove damaging to us all.

Finally, it is extremely important that we make progress toward integrating developing countries better into the trading system. One aspect of this effort is safeguards, another is the proposal which we have put forward for a round of trade negotiations with developing countries. We would like to have your active support in developing a more detailed negotiating program and in persuading developing countries with a large stake in trade that such negotiations would be strongly in their interest.

I recognize that these issues are complex and involve closely interwoven aspects of trade and foreign policy. Bill Brock, the U.S. Trade Representative has discussed these problems with Commission Representatives in Geneva and in Brussels. I have written President Thorn to express the same concerns which I am sharing with you. My purpose in writing is to suggest that we must concentrate on the political as well as the economic stakes involved in this meeting. We cannot afford the corrosive effects of a continuation of present trade tensions on our political relationships. The health of the Alliance and our relations with developing countries alike need the stability provided by a strong trade system. I hope that Great Britain's influence can be used to encourage others to make the effort necessary to assure that the Ministerial strengthens the trade system during this period of serious strain.

In this connection, I note that the Council of Ministers has as yet been unable to agree on a negotiating mandate on these and other questions. I hope that you will take a strong stand within the EC to assure a forthcoming EC position and that you will support the Commission's effort to assure pragmatic EC participation in the Ministerial.

Best regards.

Sincerely,

George

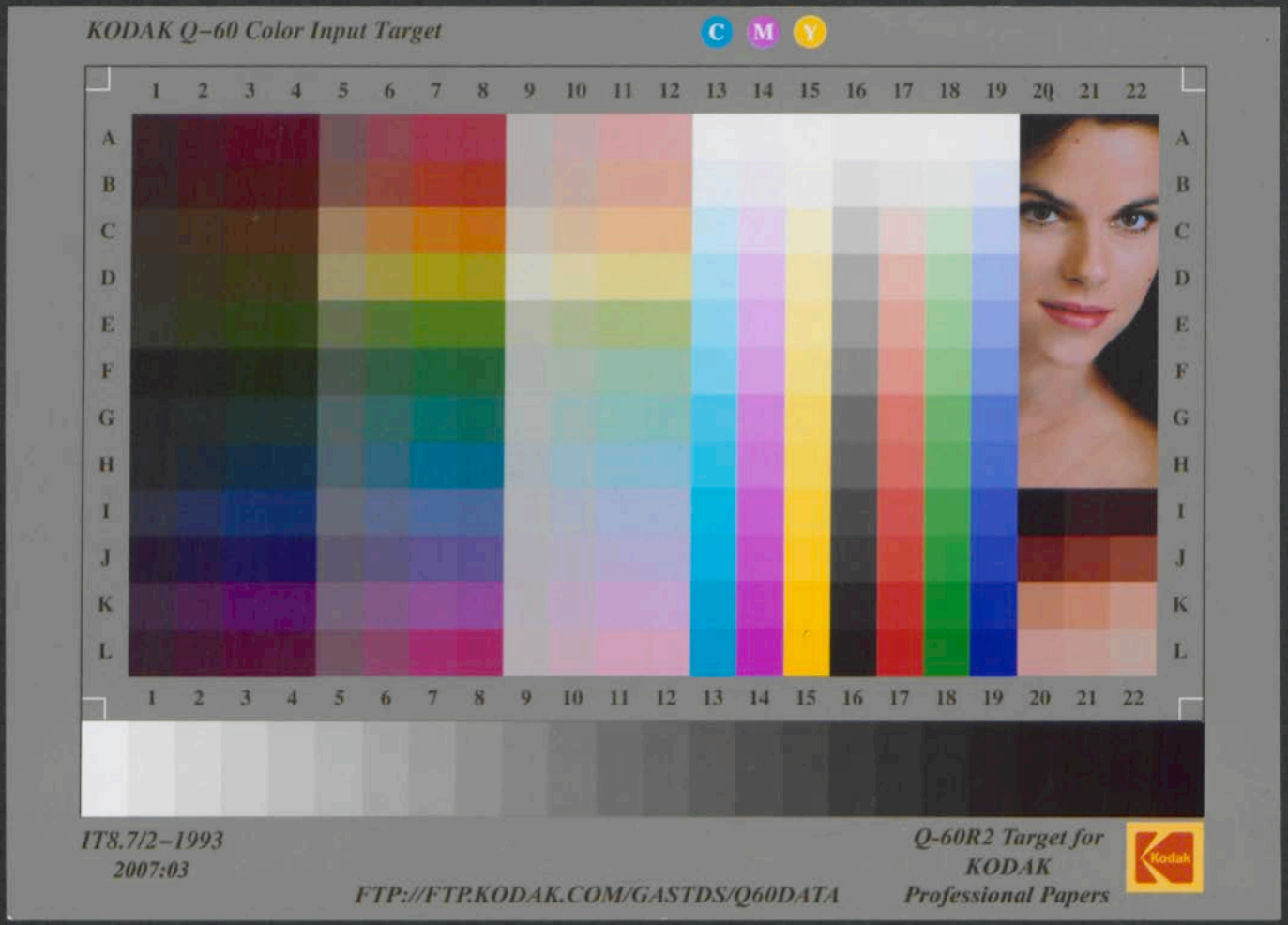
/S/ George Shultz

PART 2 ends:-

OCTOBER 1982.

PART 3 begins:-

NOVEMBER 1983.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