PART 1

MT

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

TRADE

APRIL 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~8.4.80~~		~~21.5.81~~					
~~25.4.80~~		~~15.6.81.~~					
~~29.4.80~~		~~22.7.81~~					
~~2.5.80~~		~~17.8.81~~					
~~18.5.80~~		~~9.9.81~~					
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~~4.12.80~~							
~~15.4.81~~							
~~14/5/81~~							

PREM 19/598

PART 1 ends:-

30.10.81

PART 2 begins:-

4.11.81

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(80)43	16.5.80
E (80)_17th Meeting, Item 1	22.5.80
E (80) 57	20.6.80
E (80) 21st Meeting, Minutes 2 and 3	25.6.80
EX (80) 2	12.11.80
EX (80) 3	1.12.80
EX (80) 4	2.12.80
EX (80) 5	2.12.80
EX (80) 1st Meeting, Minutes	4.12.80
C (81) 24	20.5.81
DCO (81) 13	21.5.81

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 OWayland Date 25 August 2011

PREM Records Team

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

CONFIDENTIAL

From the Secretary of State

PM's Scholar
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Mid

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign &
Commonwealth Affairs
London SWI

30 October 1981

Dear Peter,

REVISION OF COMMUNITY REGULATIONS ON IMPORT CONTROLS

1 When the Prime Minister held a meeting with a number of us on 8 September to discuss general trade policy questions, there was agreement that we should resist changes currently being proposed by the Commission which could involve a further reduction in the scope for national action to restrict imports.

2 There is no question in my mind about the importance of retaining a credible right of national action. In the negotiations with Japan and some others on "voluntary restraint arrangements" it makes a big difference to the bargaining position of our industries and ourselves as a government if the Japanese and the others know that, should we decide to resort to formal quota action, we do not have to get prior Community agreement but can act first and deal with the Community problem afterwards.

3 It is against that background that I have considered the issues as set out in the enclosed note by my officials. The main points seem to me to be these.

4 Because of a clause in the present Community Regulations which was negotiated by the previous Administration, the arrangements to apply from the beginning of 1982 are bound in one resp[illegible]t to be less satisfactory than those applying at the moment. [illegible]gs stand

From the Secretary of State

now, if we put on restrictions unilaterally, and the Commission object, their subsequent confirmation by the Community requires in some cases positive endorsement by the Council but in others - which happen to include cars - only a Council decision which does not disapprove the restriction. In the former case we need a majority in our favour; in the latter it is sufficient if there is not a majority against us. Under the new arrangement we would always require positive approval. I would not want to exaggerate the extra difficulty this might cause us. The Council would always in any event be very hesitant to require any Member State to desist from action which it had already taken - remembering that we are not talking here about illegal action, like the French restrictions on imports of Italian wine. In the particular case of Japan, I would expect general support from the Commission and most other Member States if we felt driven to quota action.

5 Nonetheless in principle the change is in the wrong direction. It could only be prevented if - and even this would only be the first step - the Commission could be persuaded to make a proposal in that sense. As you will see, the view of officials is that there is no possibility of their agreeing to do this. I must ask you however whether we need to regard this matter as inescapably lost. I recognise that time is short now, and that we have many other no doubt much more important objectives to achieve in our Presidency. Could you please however personally consider whether this is not one we might not add to them.

6 If we have to accept the diminution of our rights in this one respect, then I believe we must try to get it strengthened in others. The proposal in paragraph 9 of the official note would have this effect. What officials are suggesting is that, as the price of accepting a Commission proposal for a public Community legislation of applications for import restrictions, the period for which a Member State would be able to continue to maintain restrictions unilaterally should be extended from the present one

From the Secretary of State

month to the period - for which a time limit of say three months might be set - until the investigation has been concluded and the Council reached its decision. That is what I think we should go for. (Certainly we must reject out of hand the Commission proposal that the one month period should be cut down to a few days).

7 I would not at this stage be prepared to agree to the fallback suggested in paragraph 12 of the official note. That is essentially just the continuation of the present system subject to the (disadvantageous) change I have described in paragraph 4 above. But we shall have to see how the further discussions in Brussels go.

8 I am copying this letter to the Prime Minister, to other member of OD(E) and to the Secretary of State for Industry.

Yours

John Biffen

JOHN BIFFEN

REVISION OF COMMUNITY REGULATIONS ON IMPORT CONTROLS

Note by Officials

The Community Regulations which govern the imposition of quota controls against "third" (i.e. non/EC) countries lapse in part at the end of this year and provide for a Council decision before the end of the year on what the arrangements to apply from 1 January 1982 should be.

2 Discussions have been going on for some time in Brussels at working level on proposals put forward by the Commission. These will shortly be moving from the technical to the more political level, in preparation for a decision at the December Council, and we need to know what line Ministers would wish us to take.

3 Under the present arrangements, the normal system if we want a quota put on imports from third countries is to seek the agreement of the Commission to make a Regulation imposing the restriction. This is the route which we followed early in 1980 on the quotas against certain American textiles.

4 The problem under this approach arises if the Commission decline to make the Regulation requested. In cases where we suspect that this may be their response, there is an alternative approach we can use under which we can take interim action unilaterally. If this is subsequently approved by the Commission and embodied in a Regulation there is no further problem (unless a Member State refers the matter to the Council; it then needs Council approval). If the Commission do not approve the action, then what follows depends on whether the product concerned falls in what, to avoid Euro jargon, we shall call list A or list B. In either case we can maintain the restriction until the Council has considered it, which would normally be in a month. In the case of A products we can continue it thereafter provided that the Council has not by majority decision disapproved the restriction. In the case of B we can maintain it only if the Council has by majority vote positively endorsed it. The A route clearly is the more favourable in terms of national powers of action; and list A happens to include most of the more sensitive products, such as cars and consumer electronics (textiles and clothing from low-cost sources are subject to quite different arrangements and are not relevant to this issue).

5 Because of a clause in the existing Regulations, the more satisfactory arrangement for A products lapses automatically at the end of this year and all products will be subject to the less satisfactory B procedure. We do not think it is possible to stop this happening, because the only way of doing so would be to persuade the Commission to make a proposal to keep the status quo (and the Council to adopt it) and we do not think there is any chance of their being willing to do so.

/6

6 The Commission's current proposals would go a good deal further in weakening national powers. As we have explained, under the present arrangements we have at worst an as it were one-month grace period, i.e. the right to maintain the restrictions until they have been considered by the Council. Under the new Commission proposals, while the right of appeal to the Council against an adverse decision by the Commission would remain, restrictions unilaterally imposed would have to be removed immediately if the Commission refused to support them. The result would be to cut down the grace period to a few days. This would be undesirable in itself, and would put us in a considerably weaker position when we came to the Council discussion (the Council would, as a matter of political reality, be less hesitant about refusing to allow the reintroduction of a restriction which had been removed than requiring the removal of a restriction which was in force).

7 There seems to us no doubt therefore that we should strongly resist this change.

8 The second major change proposed by the Commission is for the introduction of an arrangement under which requests for quota action would be subject to a public investigation by the Commission, similar in principle to what happens under United States legislation. There could be some advantages in this proposal if only because it would give a greater voice to consumers and others who stand to lose by import restriction. But it is important that we should be able to maintain the restrictions while the investigations are in process. Otherwise we could have an absurd situation under which we imposed a restriction as an interim measure unilaterally, were required to take it off while the Commission instituted an investigation, and were then able to reinstitute it if the investigation ultimately led to a Community decision in our favour. Bearing in mind the strong criticism there often is about the time taken in anti-dumping investigations, we should also want a fairly short time limit for the investigation.

9 In sum, therefore, we suggest we should go for the combination of a time limited investigation with the right of Member States to maintain unilaterally imposed quotas while cases are under investigation. If the decision of the Commission is adverse, the Member State should have a right of appeal to the Council and a right to maintain the quotas until the Council has made its decision.

10 There is one further point we think we should question. In the Commission proposals the provision for autonomous national measures would expire at the end of 1984 in the absence of a Council decision to extend it (just as the present regime expires at the end of this year). We think we should press for this time limit to be removed altogether, or to be replaced by a neutrally worded provision for review by the Council. But other Member States seem unlikely to support us on this, and the Germans could well make retention of the present proposal a condition of meeting us on our other points. We do not therefore think that we should make this a sticking point.

11 We would we think have some support for the proposal in paragraph 9, especially from the French and Italians. Since however it would give individual Member States the right to maintain action unilaterally longer than they can now, it would be very unwelcome to the Commission and be strongly resisted by the Germans. Our bargaining position is not strong since, if there is no agreement by the end of the year, the right to take unilateral action on list B products will lapse altogether (with the present arrangements for list B applying to list A products). We therefore have a greater need than the Germans to get something agreed.

12 We therefore suggest that in the last resort, if we cannot get agreement to the line in paragraph 9, we should as a fallback be prepared to go for a simple extension of the present arrangements (subject to the dropping of the A list procedure described in paragraph 5 above) with no investigations and a one-month grace period. The dropping of the A arrangement will of course be regrettable, but as we have explained we do not see that we can do anything about this.

13 There are tricky practical problems here in relation to the Commission and the Germans, and our whole role as the Presidency. The first and most important thing however is to decide our priorities in terms of substance; the next official level meeting in Brussels is on Tuesday November 3. This could prove to be a rather important occasion.

RECOMMENDATION

14 We seek approval of Ministers to the course proposed in paragraphs 9 and, if need be, 12 above.

29 October 1981

Trade

10 DOWNING STREET

From the Private Secretary

29 October 1981

UK TRADE POLICY

Thank you for your letter of 29 October.

I appreciate that MAFF will need to be closely involved in the work arising from the Prime Minister's meeting of 8 September. I am not clear in what forum the results of this work will be discussed. But I have noted carefully what you say about this.

I am copying this letter to the recipients of yours.

M. C. SCHOLAR

Miss Kate Timms,
Ministry of Agriculture, Fisheries and Food.

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's Private Office

Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

29 October 1981

Dear Michael,

UK TRADE POLICY

I have seen the exchange of correspondence between you and Ian Ellison about the Department of Industry's involvement in further inter-Departmental work on UK trading policy. My own Department's interest in this work has already been referred to in previous correspondence (Catherine Capon's letter to Tim Lankester of 21 September), and I am sure you are well aware of it. However, perhaps I could just put on record that MAFF does wish to be closely involved in the work arising from the Prime Minister's meeting of 8 September; and I hope that my Minister will have the opportunity to join in any further Ministerial discussions on this.

I am copying this letter as for the previous correspondence.

Yours sincerely
Kate

KATE TIMMS
Private Secretary

Mr Alexander (o/r)

Trade

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

From the Secretary of State

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The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

23 October 1981

Dear Secretary of State

When we met on 6 April we agreed on the objectives which we should seek in the re-negotiating of the MFA and the associated arrangements with the "preferential" (essentially Mediterranean) countries. There have been significant developments since in the discussions within the Community on a negotiating mandate, and in the GATT, and my colleagues will wish to know how things now stand.

The Community mandate

Inside the Community there is only partial agreement so far on what the Community's objectives should be. Following discussion at the June and July Councils, certain points were readily agreed. These included important objectives of our own, notably the need for growth rates to be in general less than the 6% nominally required by the MFA; for differentiation between the major and wealthier suppliers on the one hand and the smaller and poorer on the other; and for a link between the Community's signature of the new MFA and a satisfactory understanding with the supplying countries on at least the broad outlines of the bilateral agreements. Because however, of the objections, in particular of the Germans, we were not able to secure agreement to some of the other points we were pressing, notably a recession clause. This last point, together with the possibility of cut backs in the level of some quotas, or their progressive reduction over the period of the new MFA (both advocated by the French), was kept open for further discussion.

The Commission have now produced new proposals which go a little way towards what we could realistically hope to obtain on a recession clause (they establish the principle of an arrangement for reviewing quotas, and they would limit the right of supplying countries in any one year to carry over under-used quotas from previous years or anticipate part of their quotas for subsequent

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From the Secretary of State

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of the MFA conditional on an understanding about the broad content of the bilateral agreements.

Next steps

Following further discussion at official level the Commission's new proposals will be discussed at the October 26/27 Council of Foreign Affairs. The crucial issues are very unlikely to be resolved then, and a further discussion at the November 16/17 Council wil almost certainly be necessary. What is meant to be the final GATT meeting is scheduled to start on November 18 - deliberately chosen as the day after the EC Council. If it is not possible to reach agreement at the November Council, the whole timetable - with the MFA (though not the EC's bilateral agreements under it) and the the agreements with the Mediterranean countries lapsing at the end of the year - will be placed in serious jeopardy.

I do not think there is any need for new decisions on our part now. After the October Council, however, we will need to have another look urgently at the whole area, and I shall submit proposals at that time.

I am copying this to the Prime Minister and to other members of OD(E).

Yours sincerely

Catherine Capon

pp JOHN BIFFEN

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

CONFIDENTIAL

years). They also go quite a fair way towards making the so-called "basket extractor" mechanism more automatic and give some indication of the proposed content of the bilateral agreements. They have in addition made proposals for a new arrangement with the preferential suppliers ('notifying' them of level of imports which would be acceptable to the Community instead of as at present negotiating 'voluntary' deals) which in certain respects could represent a toughening up.

There are a lot of points on which further detailed work is necessary (eg the proposed categorisation of countries for "differential" purposes needs refining). The main unsatisfactory features are (i) weaknesses in the new preferential arrangements (eg the lack of a clear commitment by the Commission to enforce the notified levels), (ii) the failure to bring all the proposals together so that we can see what would be involved in terms of additional imports from all sources. Calculations currently being worked on suggest that, when everything is totted up, what the Commission is now proposing could involve quota levels far in excess of anything we could accept. This could face us with an extremely difficult choice. If it proves unavoidable to resort to cut-backs at least on the dominant suppliers in order to obtain acceptable overall quota levels it will be very difficult indeed to get the agreement of our Community partners that Hong Kong should be excluded from such cuts. We may, therefore, be faced with a straight - and unwelcome - choice between two of our key negotiating objectives.

In the discussions within the Community we have been able to work closely with the French; and officials are having bilateral talks with them as part of the follow-up to the summit meeting with President Mitterand. The Germans (despite increasingly vocal resentment on the part of their industry) continue to advocate a liberal line, with some of the other Member States somewhere in between.

The GATT Discussions

The delay in agreeing a Community mandate has put the EC in a very difficult position in the multilateral talks in Geneva. This has been especially true since September, when the United States tabled a draft text for a renewal Protocol and indicated that they donot require cutbacks or a recession clause, both points on which the Community has formally reserved its position. The United States has made it clear that they will be going for growth rates below 6%, but this has not stopped the EC being singled out for criticism by Third World suppliers. One point they particularly resent is the EC's (somewhat misunderstood) insistence on making signature

From the Secretary of State

of the MFA conditional on an understanding about the broad content of the bilateral agreements.

Next steps

Following further discussion at official level the Commission's new proposals will be discussed at the October 26/27 Council of Foreign Affairs. The crucial issues are very unlikely to be resolved then, and a further discussion at the November 16/17 Council wil almost certainly be necessary. What is meant to be the final GATT meeting is scheduled to start on November 18 - deliberately chosen as the day after the EC Council. If it is not possible to reach agreement at the November Council, the whole timetable - with the MFA (though not the EC's bilateral agreements under it) and the the agreements with the Mediterranean countries lapsing at the end of the year - will be placed in serious jeopardy.

I do not think there is any need for new decisions on our part now. After the October Council, however, we will need to have another look urgently at the whole area, and I shall submit proposals at that time.

I am copying this to the Prime Minister and to other members of OD(E).

Yours sincerely

Catherine Capon

pp JOHN BIFFEN

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

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Trade
April 80
Mexico

VLB

19 October 1981

Thank you for your letter of 12 October to Clive Whitmore about the correspondence between Ministers and a meeting held by the Prime Minister on 8 September about UK trading policy.

I fully appreciate that the Department of Industry have an important contribution to make to inter-Departmental work on this topic, and we will ensure that your Secretary of State will have an opportunity to take part in any further discussion on this topic.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (H.M. Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

MICHAEL SCHOLAR

I. K. C. Ellison, Esq.,
Department of Industry.

BK

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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Secretary of State for Industry

Clive Whitmore Esq
Private Secretary to
the Prime Minister
10 Downing Street

12 October 1981

Dear Clive

UK TRADING POLICY

My Secretary of State has only recently seen copies of an exchange of correspondence between ministers and of the record of a meeting held by the Prime Minister on 8 September about UK trading policy. Sir Keith Joseph did not see the correspondence and was not invited to the Prime Minister's meeting.

2 Since the central point of the discussion was the adequacy or otherwise of the present arrangements for considering the needs of protection of British industry, Mr Jenkin thinks it important that he should have an opportunity to take part in any further discussions on this topic.

3 I am copying this letter to Brian Fall (FCO), John Kerr (Treasury), Kate Timms (MAFF), John Rhodes (Trade) and David Wright (Cabinet Office).

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

Clive O/R

[illegible]

Yes, [illegible]

[illegible] 15.x.

We have already had a telephone call from Mr Jenkin's office on these lines.

The fact is that the meeting grew out of an uncirculated quasi-private minute from the Chancellor to the PM; and that there was, presumably, a desire to keep the group small.

DoI will be involved in the studies commissioned at the 8 Sept meeting and I imagine will have a contribution to make at any further meeting.

Shall I write ~~on~~ these lines and indicate that ~~the~~ Mr Jenkin will be invited next time? MCS 14/10

Trade

Ref A02429

PRIME MINISTER

BRITAIN'S INTERNATIONAL TRADE POLICIES
AND NON-TARIFF BARRIERS TO TRADE

E(80) 43 and 57

BACKGROUND

Although these two papers are down on the Agenda as separate items they overlap and can best be discussed together.

International Trade Policies: E(80) 43

2. In the first part of this paper the Secretary of State for Trade proposes that in general the Government should maintain a policy of open trading, rejecting import controls but fighting dumping and other unfair trade practices. He argues that, apart from GATT and EC constraints, it is in the national interest to do so. Protectionism would remove incentives and would be at the expense of the consumer. We could not afford countervailing action against our exports of goods and services, which are around a third of our GDP.

3. He recommends that for textiles our main objective in restraining imports must be secured through the re-negotiation of the Multi-fibre Arrangement, as E has already agreed. Elsewhere we should broadly maintain the import controls we have (on steel, footwear, TVs, cars etc) and be active, through the Commission, in the anti-dumping field - see his paragraphs 7(ii) and (iii).

4. In his paragraph 8(a) the Secretary of State questions whether we should remain in overseas project business where we are paying heavy interest rate subsidies to secure business in large overseas projects (eg power stations, mining, and railway electrification).

5. In 8(b) he questions whether the organisation of Government is appropriate to international trade in 1980. He points out that the Departments of Industry and of Trade, the Foreign Office and the Treasury are all involved in this area. I understand that the main change which he is seeking is more delegated authority from the Treasury on particular cases, including those involving the ECGD.

6. Paragraph 8(c) questions the balance between trade and diplomacy in foreign policy. Mr Nott suggests that our trading interests might be better served if we were to keep a lower public profile rather than to seek to practice world leadership in foreign policy.

The Foreign Secretary's minute of 10 June

7. The last question in E(80) 43 - trade versus diplomacy - provoked a vigorous reply from the Foreign Secretary. He rebuts the criticism levelled against our activities in particular areas. More generally he argues that the right course is to exert what influence we can on world affairs and not to be afraid of letting Britain's voice be heard; and that the fundamental reason for poor export performance lies with the deficiencies of our manufacturers rather than with our foreign policy.

Non-Tariff Barriers to Trade: E(80) 57

8. This paper by the Chancellor of the Exchequer was prepared by a small group of Ministers including the Secretaries of State for Employment, Industry and Trade, the Lord Privy Seal and the Minister of Transport. Officials from the Department of the Environment took part. It considered impediments to international trade rather than explicit controls - eg national standards and regulations, subsidies and price controls, discriminatory public purchasing policies.

9. The general arguments against extending NTBs are similar to those in the Secretary of Trade's paper against restrictions on open trading. Moreover, the Chancellor's Group judge that, while NTBs have a significant localised impact on certain industries and markets, it is doubtful whether they have a significant direct effect on the totality of our exports. They do not propose any major new initiatives.

10. In paragraph 10 the Chancellor summarises four limited areas in which further work is recommended with the objective of intensifying the use of NTBs in the United Kingdom. These are -

(a) accelerated payment of VAT on imports;

(b) an EC ban on the import of leather products containing sperm whale oil;

(c) a UK national type approval scheme for imported commercial vehicles; and

(d) the use of national safety standards and regulations.

11. Paragraph 15 lists a variety of initiatives which would be taken, mainly through the EC, to secure the dismantling of NTBs elsewhere. These include revised arrangements for technical barriers to trade; simplification of procedures for the collection of VAT and of statistics on imports; implementation of new non-discriminatory regulations by the French which would reduce the scope for them to frustrate inward investment; and removals to barriers to intra community trade in services.

HANDLING

12. You might open the discussion yourself by suggesting that, since the argument about open trading is common to both, the papers might be taken together, but reserving the more general questions raised by the Secretary of State for Trade on the Whitehall structure and trade versus diplomacy to the end of the discussion. You might then invite the Secretary of State for Trade to introduce his paper and the Chancellor of the Exchequer to follow on non-tariff barriers. Before turning to the particular questions on which Departmental Ministers will wish to comment, you might invite Mr Ibbs to comment on the general arguments put forward. Other Ministers to invite are the Lord Privy Seal, representing the Foreign Secretary, and Lord Gowrie, representing the Employment Secretary, who is tied up with the Opposition Supply motion on unemployment.

13. In the discussion you will wish to cover the following questions:

(a) Is the general stance on open trading right?
The Secretary of State for Trade has summarised in his paragraph 9 (a) - (f) the general approach which he wants the Committee to endorse - generally open trading, resisting pressure for new import controls but maintaining those we have now, and acting through the EC and GATT to get a better deal more generally. This is likely to win general support and, if so, the Committee can then turn to the more detailed proposals in the two papers.

(b) Should the payment of VAT on imports be accelerated?
(Paragraph 10(a) of E(80) 57.) This would bring the procedure in line with that for domestically produced goods. It will probably be more useful as a once for all benefit to the PSBR, in the order of £500 millions, rather than as a NTB. But it would affect company liquidity at a difficult time and need some more customs officials to administer it. No

decisions have been taken yet and the Chancellor is arranging for the Treasury, Customs and Industry to look at the idea further. Unless the Committee has any particular points which the Chancellor should take on board, it will be sufficient to note that this work is in hand.

(c) What should be our line on sperm whale oil? (Paragraph 10 (b).) In short the proposal here is to be vigorous in supporting measures for the conservation of whales with the incidental effect of securing a ban on the import of leather and leather products containing sperm whale oil. The Secretary of State for the Environment will wish to comment on this since his Department is in the lead in the current EC negotiations.

(d) Should there be a national type approval scheme for commercial vehicles? (Paragraph 10(c).) This will be welcome to BL but not to the multi-nationals based here or to some of the smaller manufacturers. The Secretary of State for Industry and the Minister of Transport will wish to comment on where the balance of advantage lies and also on the administrative costs of introducing this scheme. However, the Committee is not being invited to take a final decision but to approve consultations with the industry.

(e) Should anything more be done on safety standards and regulations? (Paragraph 10 (d).) The Secretary of State for Trade is currently reviewing the relevance of national standards to assisting United Kingdom producers. This follows a recent discussion by E(EA) of proposals by the CPRS. Unless any Ministers have new points to make at this stage it would be sufficient to note the position here.

(f) Are there any other possibilities for NTBs? The paper notes that the Minister of Agriculture and the Secretary of State for Trade are looking at the food and drink sector and will make any recommendations separately. Given that the Ministers mainly concerned have been looking at NTBs for some time it seems unlikely that any new ideas will come forward.

(g) Are the proposals for dealing with NTBs in other countries acceptable? These are listed in paragraph 15 of E(80) 57. For the most part they represent action which is already in hand by the Secretary of State for Trade, and it is largely a matter of inviting him to press forward and to consult colleagues where necessary. EQS will be considering the general question of freedom to provide services this Friday, 27 June. E has already agreed a line on public procurement to help with the competitiveness of UK industry.

(h) Are the arrangements for overseas project business satisfactory? This is the point raised in paragraph 8(a) of E(80) 43. The Secretary of State for Trade points out that interest rate subsidies are very high but then appears to go on to say that the policy is right. You might ask him to say whether he is proposing any changes here.

(i) Should there be any changes in the Whitehall organisation? If the Secretary of State for Trade has any specific proposals to make - for example on the extent of Treasury delegation to his Department and to the ECGD - he should take them up directly with the Minister concerned. Any more radical changes in Departmental organisation - although I do not think the Secretary of State is suggesting this - would be for you to decide as a question of the machinery of Government.

(j) Should the balance of trade and diplomacy be changed? In his paragraph 8(c) the Secretary of State for Trade makes some points about particular markets, such as Taiwan, I suggest that any particular complaints should be pursued separately with the Foreign Secretary. The Committee will probably not want to spend time debating the more general issue of trade versus diplomacy.

CONCLUSIONS

14. In the light of the discussion you will wish to record conclusions:

(i) endorsing the general policy on trade summarised in paragraph 9(a) - (g) of the Secretary of State for Trade's paper, E(80) 43;

(ii) endorsing the further work proposed in the Chancellor of the Exchequer's paper E(80) 57 on non-tariff barriers in the United Kingdom (paragraph 10) and on action to secure dismantling of NTBs in other countries (paragraphs 15 and 16);

(iii) inviting the Secretary of State for Trade to take up with the Chancellor any proposals he may have on Treasury delegation to Trade and ECGD and with the Foreign Secretary any particular points on the Foreign Office's role in trade promotion.

RA (ROBERT ARMSTRONG)

24 June 1980

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

From the Secretary of State

Tim Lankester Esq
Private Secretary
10 Downing Street
London SWI

21 September 1981

Dear Tim

UK TRADE POLICY

Please refer to your letter of 9 September to John Kerr. I wish to confirm that it has been copied to the Department of Industry (as you agreed) who along with MAFF will also wish to be consulted in the study that the Department of Trade was commissioned to pursue.

I am copying this letter to John Kerr (Treasury) Brian Fall (FCO) Gareth Steel (MAFF) and David Wright (Cabinet Office).

Yours sincerely

Catherine Capon.

CATHERINE CAPON
Private Secretary

CONFIDENTIAL

file
cc: Trade
FCO
MAFF
CO
hcc: Alan Walters.

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SUBJECT
cc Master Set

10 DOWNING STREET

From the Private Secretary

9 September 1981

(p.3) BF

United Kingdom Trading Policy

As you know, the Prime Minister held a meeting yesterday morning to discuss UK trading policy. The following were present: Chancellor of the Exchequer, Foreign and Commonwealth Secretary, Secretary of State for Trade, Minister of Agriculture, Sir Robert Armstrong and Alan Walters. They had before them the Chancellor's undated July minute on this subject, as well as minutes or letters dated 22 July, 31 July and 10 August respectively from the Secretary of State for Trade, the Lord Privy Seal and the Minister of Agriculture.

The Chancellor said that he fully supported the open trading system, but he was concerned that the UK was not benefiting sufficiently from it. Recalling the discussion that had taken place in June 1980 in E Committee about the measures that the Government was or could be taking to improve our trade balance and to protect particular industries within the open trading framework, he wished to discuss with colleagues how such measures could be applied more expeditiously and effectively. The problem, as he saw it, fell under two heads. First, there was the question of imports, often heavily subsidised, from outside the EEC. The problem here was compounded by the fact that the tariff on goods coming into the UK seemed in many cases to be far lower than the tariff imposed by other countries on similar goods which were exported from the UK. He cited the example of footwear: the UK tariff on men's shoes was 8%, whereas the tariff charged by other countries ranged from 18% in the case of Canada to 170% in the case of Brazil. In addition, many countries imposed strict quotas. Another example was the trade between the UK and Spain in motor cars. The Spanish tariff was far higher than the UK tariff, and 50% of Ford cars in the UK were now being built in Spain. He believed that more effort should be made to correct the unfair trading arrangements between the UK and a number of non EEC countries. Furthermore, he wondered whether we were making as much use of Article 19 as we might. Second, there was the question of unfair competition within the EEC. It was clear that the French, for example, used non-tariff barriers much more vigorously than we did. For instance, he understood that, by

/ simple administrative

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simple administrative delay, they were holding up wine imports from Italy; likewise they were holding up imports of UK pleasure boats. He had been struck by a recent telegram from Paris (telegram 614) which described the new French Government's policy as one of "reconquering markets": he had no doubt that they would use every means available to bring this about. Consideration should be given to seeing whether more effective action could be taken through the Community against the unfair trading practices operated by the French and to a lesser extent by other EEC members. At the same time, while he recognised that it was necessary to move carefully in order to avoid retaliation or challenge in the courts, further consideration should be given to providing protection against disruptive imports from the EEC.

The Secretary of State for Trade said that he was not an unequivocal devotee of the open trading system. In some areas, such as trade with Japan and trade in textiles, it was necessary that it should be qualified by special arrangements. Also, the Government already had a policy of imposing non-tariff barriers where this could be done without inviting retaliation: he believed this policy should be entrenched. His Department were also doing what they could to persuade other countries to reduce their tariffs. He agreed that our trading arrangement with Spain was wholly unsatisfactory; but the UK had no power to change it unilaterally. Any change had to be carried out through the Community. Strong representations had been made to the Commission, and he had also handed an official letter of protest to the Spanish Ambassador. But the interests of other EEC members were rather different from our own because they had substantial manufacturing investments in Spain and therefore benefited from the high Spanish tariff. Even the UK position was not as clear cut in every case as it might seem: for example, the Ford cars being imported from Spain included engines built in South Wales. The best way of dismantling the present unsatisfactory arrangement with Spain would be for Spain to join the EEC as soon as possible. There was therefore a strong case for doing everything we could to speed up the Spanish negotiations and to ensure a short transition period. As regards footwear, his Department was certainly keen to cooperate with the UK industry on dumping cases. But these had to be pursued with care because many of those countries which exported shoes to the UK were major importers of UK manufactures. In general, the argument in favour of protecting a particular industry always had to be balanced against the risk of retaliation. For example, the action taken under Article 19 against US nylon imports had resulted in the US retaliating against our knitwear industry; and as a result, we had felt obliged to withdraw the Article 19 quota. On the other hand, it was a matter of some concern to him that proposals currently under discussion in Brussels would, if adopted, result in some further reduction in the scope for national action against imports from outside the EEC.

The Minister of Agriculture said he was especially concerned about the damage done to our industries by imports from other EEC countries. There was much evidence in the agricultural sector

/ of illegal

of illegal State aids; yet the Commission seemed unable to do anything about them. For example, the Dutch had been subsidising their glasshouse industry for years, but the Commission had failed to stop them. Consequently, the UK industry was being destroyed. There were other examples where the use of State aids might be technically legal, but where real damage was nonetheless being done to UK agriculture. One general problem which had to be faced was that, under the British legal system, it was far easier to have EEC regulations and Court decisions enforced than in France. The measure which he had recently announced to protect the turkey industry was the only one that was likely to stand up in a UK court. If he had introduced any other measure, an injunction would no doubt have been brought against the Government within days. By contrast, in France, it would no doubt have taken several years before a complainant could have brought the matter to court. Likewise, when the French were found guilty in the European Court, they had no reason to take much notice. In the UK a European Court decision would be enforced by the UK courts within a matter of days. Commenting on this last point, the Chancellor said that consideration should perhaps be given to altering the Community legal system so as to allow members to take unilateral action against unfair trading practices without challenge in the courts.

The Foreign and Commonwealth Secretary said that he doubted this would be possible, for it would be inconsistent with the whole concept of the Common Market. As for the more general issues, he believed it was common ground that we gained more than we suffered from the open trading system. There certainly was cheating by other countries, but we should beware of allowing the volume of complaints to exaggerate the real extent of the damage done to our industries. He believed that the best approach was to continue to pursue vigorously other countries' unfair trading practices on a case by case basis; and also to devise non-tariff barriers that would not result in retaliation nor would be challenged in the courts. At the same time, he had to warn colleagues that at Melbourne and Cancun the developing countries were likely to focus on the issue of non-tariff barriers; with the reduction in industrial countries' tariffs in recent years against their imports, they increasingly saw non-tariff barriers as the constraint on increased trade.

Summing up the discussion, the Prime Minister said that they were all agreed that the UK's trading arrangements both within the EEC and with the rest of the world must be made to work more to the UK's advantage. With this in mind, she invited the Secretary of State for Trade to arrange for a study to be carried out of the options open to us. It should look in particular at the scope for taking further covert action to protect our industries and at the possibilities of persuading the Commission to improve its monitoring of, and to take firmer action against, illegal and unfair trading practices in other member states. The study should include a report on progress made in introducing new non-tariff barriers in four areas on the lines discussed by E Committee in June 1980. The Secretary of State for Trade should also arrange

/ for an examination

for an examination of UK legal procedures, insofar as they appeared to make it easier for Community law to be enforced in this country than elsewhere, and of any action that might be taken in this respect which might make Community law less immediately binding. These studies should be carried out by the Department of Trade in consultation with the Foreign and Commonwealth Office, the Attorney General's Office, the Treasury and the European Secretariat of the Cabinet Office. In the meantime, continuing efforts should be made wherever the opportunity arose to bring pressure to bear on our trading partners to give the UK better access to their markets and to persuade them to remove unfair State aids. She would take the opportunity of her forthcoming meetings with President Mitterrant to raise some of the issues which had been referred to in relation to Anglo/French trade. Finally, the proposals currently being discussed in Brussels which would involve further reduction in the scope for national action against imports should be resisted.

I am sending copies of this letter to John Rhodes (Department of Trade), Brian Fall (Foreign and Commonwealth Office), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

T. P. LANKESTER

John Kerr, Esq.,
HM Treasury

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

8 September 1981

(4)

Prime Minister

Nick McInness Esq
Department of Trade
1 Victoria Street
LONDON SW1

Dear Nick,

UK TRADE POLICY

At the meeting with the Prime Minister today, the Chancellor quoted from a speech by a leading member of the Footwear Industry to the Institute of Directors given on 30 April, 1981, and promised to circulate copies of the text. This is attached at Annex A. I also attach a submission from J W W Pittard dated 16 January which no doubt has already been considered by officials in your Department.

As the Chancellor said at the meeting, he feels that these particular examples illustrate well the very difficult position of particular industries which can result from a variety of unfair trading practices by other countries. He is very well aware from his own experience as Minister for Trade and Consumer Affairs that there is always some degree of exaggeration by the industries affected in these cases - but he believes even when this is discounted there is a very real problem and real cause for concern.

In addition to the two documents attached, the Chancellor has asked me to redraw attention to the Saving Telegram No.97 of 10 July, 1981 on the economic and social measures in the French Government's programme. Paragraph 9 referred to the French Government's intention to be vigilant over unfair competition, to base this attitude on strict reciprocity in commercial and trade practices, and to reconquer the domestic market.

I am copying this letter and attachments to Kate Timms (MAFF) and Tim Lankester (No.10).

Yours ever,
Peter

P S JENKINS
Private Secretary

ANNEX A

SPEECH FOR INSTITUTE OF DIRECTORS ON 30TH APRIL 1981

FIRST, I WANT TO MAKE IT CLEAR THAT OUR INDUSTRY WOULD PROSPER IF WE HAD FREE TRADE. IMPORTS WOULD INCREASE NOMINALLY AS THEY FACE FEW BARRIERS NOW AND OUR EXPORTS WOULD GROW IMMENSELY AS BARRIERS AGAINST THEM CAME DOWN. HOWEVER, THE FACT IS THAT AT PRESENT OPEN TRADE IN FOOTWEAR EXISTS ONLY BETWEEN EEC MEMBERS, SOME EFTA COUNTRIES AND THE USA.

IN THE EEC WE HAVE EXPANDED OUR EXPORTS BY NEARLY 700 PERCENT SINCE 1972. HOWEVER, IN THE REST OF THE WORLD WHERE OUR MAIN COMMERCIAL OPPORTUNITIES SHOULD LIE, THE MARKETS ARE ALMOST ALL EITHER CLOSED OR VERY SEVERELY RESTRICTED. LET ME GIVE YOU SOME EXAMPLES: FIRST, OUR MAJOR MARKETS TRADITIONALLY WERE THE OLD COMMONWEALTH COUNTRIES. OF THESE COUNTRIES AUSTRALIA IMPOSES A 46½% DUTY AND HAS HIGHLY RESTRICTIVE QUOTAS, NEW ZEALAND HAS A 45 PERCENT DUTY AND QUOTAS, SOUTH AFRICA EFFECTIVELY BANS IMPORTS BY LICENCES AND CANADA, WHERE THREE YEARS AGO WE WERE STILL VERY SUCCESSFUL, NOW IMPOSES QUOTAS AND A RELATIVELY HIGH DUTY. NOT SURPRISINGLY UNDER THESE CONDITIONS OUR SALES TO THESE TERRITORIES HAVE NOW BECOME INSIGNIFICANT

(i) Straight protection by quota only

IN THE FULLY DEVELOPED WORLD JAPAN OPERATES A QUOTA AND THE LEVEL OF IMPORTS ALLOWED IS FRACTIONAL. NO DETAILS ARE PUBLISHED ABOUT THIS QUOTA - AN OMISSION IN CLEAR CONTRAVENTION OF AN AGREEMENT REACHED IN THE LATEST ROUND OF GATT NEGOTIATIONS. THEIR DEFENCE OF THIS ACTION IS THE EXISTENCE OF SOME OBSCURE CASTE WHO CAN ONLY OBTAIN EMPLOYMENT IN THE LEATHER AND FOOTWEAR INDUSTRIES. HOWEVER, WE HAVE PROVED THAT THIS IS NONSENSE, AND THAT THEY DO OBTAIN EMPLOYMENT ELSEWHERE READILY. IT IS QUITE SIMPLY AN INGENIOUS EXCUSE. MANY MINISTERS FROM THE UK AND THE EEC HAVE RAISED OBJECTIONS BUT THE JAPANESE TAKE NOT THE SLIGHTEST NOTICE.

IN THE SO-CALLED DEVELOPING WORLD THE MAJOR EXPORTERS TO OUR MARKETS ALL PREVENT US SELLING TO THEM. TAIWAN - NOW THE WORLD'S BIGGEST FOOTWEAR

EXPORTER - HAS A 65 PERCENT DUTY, KOREA AN 80 PERCENT DUTY AND LICENCES WHICH ARE CLAIMED TO BE FREELY GRANTED BUT IN PRACTICE ARE UNOBTAINABLE. BRAZIL - SECOND ONLY TO ITALY AS A LEATHER FOOTWEAR EXPORTER - HAS A 170 PERCENT DUTY AND A 100 PERCENT IMPORT DEPOSIT. OIL RICH NIGERIA WAS ONCE ONE OF OUR LARGEST MARKETS AND NOW BANS OUR EXPORTS. INDIA AND PAKISTAN TOO IN PRACTICE EFFECTIVELY BAN IMPORTS THROUGH A LICENSING SYSTEM. YET ALL THESE COUNTRIES ARE ACTUALLY ASSURED HERE OF A DUTY FREE QUOTA UNDER THE GSP SCHEME.

NEARER HOME SPAIN HAS AN EFFECTIVE DUTY OF 34 PERCENT AND INTERNAL SUBSIDIES, AND PORTUGAL (A MEMBER OF EFTA) OPERATES A LICENSING SYSTEM THAT IS IN THEORY OPEN BUT IN PRACTICE INVOLVES DELAYS OF SO MANY MONTHS THAT IT IS AN EFFECTIVE BARRIER TO EXPORTERS IN A SEASONAL TRADE SUCH AS OURSELVES. ALL THESE COUNTRIES ARE MAJOR EXPORTERS TO BRITAIN AND THEIR MARKETS ARE EFFECTIVELY CLOSED TO US. EVEN WITHIN THE EEC IT WILL BE MANY YEARS BEFORE EXPORTING FOOTWEAR TO GREECE WILL BECOME A REALISTIC PROSPECT BECAUSE OF THE LONG TIME TABLE FOR TARIFF REDUCTIONS.

THE SAME PROBLEM EXISTS WITH STATE TRADING COUNTRIES AND HERE POLAND IS A GOOD EXAMPLE. WE CAN OF COURSE EXPORT VIRTUALLY NOTHING TO THEM. IN RETURN THEY HAVE TAKEN SOME 10 PERCENT OF THE BRITISH MARKET FOR MEN'S LEATHER SHOES BY SETTING PRICES AT LEVELS THAT, AS WE HAVE DEMONSTRATED ACCORDING TO THE STRICT EEC CRITERIA FOR DUMPING, ARE ~~30~~ 50 PERCENT BELOW AN ESTABLISHED FAIR PRICE FROM A FREE MARKET COUNTRY OUTSIDE THE EEC. UNFORTUNATELY, OUR ANTI-DUMPING CASE IS CERTAIN TO RUN INTO SERIOUS OPPOSITION EVEN WITHIN THE COMMUNITY BECAUSE FREE TRADE GERMANY OPERATES A RIGID QUOTA WHICH HAS PRECLUDED ANY GROWTH IN IMPORTS FROM POLAND OVER THE LAST DECADE AND IS SET AT A LEVEL ALLOWING IN ONE FIFTH OF IMPORTS INTO THE UK. IF OUR DUMPING CASE WAS FOLLOWED THROUGH SUCCESSFULLY IT WOULD ALMOST INEVITABLY MEAN THE END OF THEIR FORMAL QUOTAS. NOT SURPRISINGLY THEY CAN BE EXPECTED TO OPPOSE OUR CASE AND AS A RESULT WE MAYBE LEFT WITH NO FORMAL CHANNEL TO TAKE ACTION AGAINST THIS TERRIBLE DISRUPTION OF OUR

MARKET. IT IS INCIDENTALLY A COMMENTARY ON THE WAY THE POLES RUN THEIR ECONOMY THAT THEY COULD OFTEN GET MORE MONEY BY SELLING THE MATERIALS FOR MAKING SHOES ON THE OPEN MARKET THAN BY SELLING THE FINISHED PRODUCT AT THE PRICES THEY SET.

FINALLY, THERE IS ANOTHER INSIDUOUS FORM OF DISRUPTION WHICH IS ON THE INCREASE. THIS IS THE DISTORTION OF THE RAW MATERIAL MARKET BY MAJOR HIDE PRODUCING COUNTRIES SUCH AS INDIA AND BRAZIL WHICH HAVE PROGRESSIVELY RESTRICTED, BANNED OR TAXED THE SALES OF RAW OR PARTLY PROCESSED HIDES, TO ENSURE THAT THEIR DOMESTIC TANNERS HAVE CHEAP MATERIALS TO PROCESS. THIS HAS ACCENTUATED FLUCTUATIONS IN WORLD HIDE MARKETS AND AS A RESULT DAMAGED OUR TANNERS AND THROUGH THEM OUR MANUFACTURERS. NOW THE PROCESS IS BEING EXTENDED FROM HIDES TO FINISHED LEATHER IN ORDER TO SECURE SHOE PRODUCTION IN THESE COUNTRIES ON PREFERENTIAL TERMS. AT TIMES WHEN HIDES HAVE BEEN SCARCE THE USA AND WEST EUROPEAN COUNTRIES MAY BE THE ONLY COUNTRIES TO CONTINUE TO EXPORT FREELY JUST AS THEY ARE ALMOST THE ONLY COUNTRIES THAT FREELY ALLOW IMPORTS OF FINISHED FOOTWEAR.

NOW, I HAVE RATTLED OFF THESE EXAMPLES QUICKLY, AND TO SOME EXTENT SIMPLISTICALLY. THERE ARE CONTROLS ON IMPORTS INTO THE UK FROM POLAND - BUT SET AT A LEVEL WHICH ALLOWS IN FIVE TIMES AS MANY SHOES AS DOES FREE TRADE GERMANY WHOSE GOVERNMENT ALSO SEES THAT A GOOD PART OF THE POLISH IMPORT LICENCES ARE ISSUED TO GERMAN MANUFACTURERS. THERE ARE VOLUNTARY AGREEMENTS WITH KOREA AND TAIWAN ALLOWING THEM TO SEND US A VOLUME EQUAL TO SOME 17 PERCENT OF OUR OWN PRODUCTION, BUT WE CAN SELL NOTHING AT ALL TO THEM IN RETURN. THERE IS A SLENDER, INADEQUATE, INEQUITABLE NETWORK OF DEFENCE AGAINST SOME COUNTRIES, BUT THE STARK TRUTH REMAINS THAT WE FREELY ACCEPT IMPORTS FROM MOST COUNTRIES EVEN THOUGH THEY EXCLUDE US FROM THEIR MARKETS. THE SITUATION STEADILY GETS WORSE: GOVERNMENT ACTION HAS NOT

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OPENED A SINGLE MARKET FOR US AND IT HAS BEEN UNABLE TO PREVENT APPARENTLY PROMISING MARKETS BEING CLOSED TO US. WHY?

BY THE RULES OF GATT ALMOST ALL THE EXAMPLES I HAVE QUOTED ARE PERMISSABLE. BUT THAT THIS IS SO IS SIMPLY A COMMENTARY ON HOW UNDER THE SUPPOSEDLY 'FAIR' GATT RULES GROSS INEQUITIES AND DISTORTIONS IN TRADE ARRANGEMENTS CAN BE PERMITTED AND INDEED PERPETUATED.

GATT WAS DRAWN UP IN THE CONTEXT OF THE 1950s - MAINLY WITH A VIEW TO WARDING OFF DAMAGING TRADE WARS BETWEEN THE DEVELOPED COUNTRIES. THE THEN POORER COUNTRIES PROVIDED NO INDUSTRIAL THREAT AND WERE NOT EXPECTED TO DO SO.

CONCESSIONS MADE IN VARIOUS KENNEDY AND TOKYO ROUNDS BETWEEN DEVELOPED COUNTRIES, HAVE AUTOMATICALLY BENEFITTED OTHER COUNTRIES SUCH AS BRAZIL, INDIA AND KOREA - EVEN MANY COMECON COUNTRIES WHO ARE GATT MEMBERS - BUT THESE COUNTRIES HAVE NOT HAD TO MAKE ANY CONCESSIONS IN RETURN.

WE ARE PLAYING CRICKET WITH THE DEVELOPING COUNTRIES, BUT THE RULES ARE THAT WE CAN ONLY BOWL UNDERARM AND THEY CAN BOWL BOUNCERS OR GOOGLIES. THEY LIKE THE RULES AND CERTAINLY WILL NOT FREELY AGREE TO CHANGE THEM.

IF WE WANT THE RULES TO BE CHANGED GOVERNMENT MUST SHOW THE WILL AND HAVE THE GUTS TO MAKE THEM. WE DO NOT WANT A TRADE WAR, OH NO - BUT WE HAVE GOT ONE - BECAUSE WE HAVE BEEN SO TERRIBLY WEAK, SO WE HAVE TRADE DEFICITS WITH THESE ADMIRABLY ENTREPRENEURIAL COUNTRIES AND IN STRAIGHT COMMERCIAL TERMS COULD BE BETTER OFF IF WE DID NO TRADE AT ALL WITH JAPAN, KOREA, TAIWAN, BRAZIL, AND A FEW MORE OF THE BLATANT USERS OF THIS INADEQUATE INSTRUMENT WE HAVE IN GATT. WE COULD CHANGE OUR OWN LAW SO THAT THE IMPORTERS OF THEIR GOODS WERE NO LONGER PROTECTED AGAINST GOVERNMENT ACTION. OF COURSE IT WOULD BE DIFFICULT, AND THERE WOULD BE QUARRELS AND ACCUSATIONS, AND IT WOULD TAKE VISION AND COURAGE. HOWEVER, IF WE PLACED A 170 PERCENT DUTY ON BRAZILIAN IMPORTS, OR AN 85 PERCENT DUTY ON KOREAN IMPORTS WITH

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PROHIBITIVE LICENCES, WE WOULD SOON BE SITTING ROUND THE NEGOTIATING TABLE FOR SERIOUS DISCUSSION, AND MY BELIEF IS THAT WE WOULD SOON AGREE SOME NEW RULES FOR GATT THAT WOULD MAKE FREE TRADE MORE OF A REALITY INSTEAD OF THE SICK JOKE IT IS TODAY. 15 PERCENT OF OUR WORK FORCE HAVE LOST THEIR JOBS IN THE PAST YEAR AND I HAD TO DECLARE REDUNDANT 25 PERCENT OF MY STAFF, THESE PEOPLE ARE NOT IMPRESSED BY THE ARGUMENT THAT THEY MUST LOSE THEIR JOBS BECAUSE GATT SAYS SO, AND GOVERNMENT CAN DO NOTHING ABOUT IT.

FINALLY, I WANT TO TOUCH ON THE POSITION OF THE CONSUMER. IS IT IN THEIR INTEREST TO BE ABLE TO BUY DUMPED POLISH SHOES, AND CHEAP IMPORTS FROM COUNTRIES THAT WILL NOT BUY FROM US? YES, IN THE SHORT TERM IT IS IN THEIR FINANCIAL INTEREST, BUT 80 PERCENT OF INDUSTRIAL JOBS ARE IN LABOUR INTENSIVE INDUSTRIES, AND OUR WHOLE FABRIC OF SOCIETY WOULD COLLAPSE WITHOUT THEIR JOBS. IT'S NOT JUST THAT IT IS NOT MUCH FUN BEING A CONSUMER WHEN YOU ARE ON THE DOLE - THERE WOULD NOT EVEN BE ANY DOLE WITHOUT MANUFACTURING INDUSTRY, OR AID TO DEVELOPING COUNTRIES, OR A MARKET FOR THEIR PRODUCTS. IF THE CONSUMER WANTS TO CONTINUE CONSUMING I THINK HE SHOULD START TO WORRY ABOUT THE FUTURE OF OUR MANUFACTURING INDUSTRY VERY MUCH MORE, AND THE GOVERNMENT SHOULD WORRY MORE ABOUT HAVING THE RIGHT RULES THAN ABOUT KEEPING THE WRONG ONES.

MDF/REE/BFMF/29.4.81

TABLE

FOOTWEAR: TRADE RESTRICTIONS

Straight protection by quotas and duty

	Quotas	Duty	Notes
Australia	Yes, restriction	46½%	
New Zealand	Yes	45%	
S Africa	De facto zero		
Canada	Yes	Relatively high	
Japan	Yes. Details deliberately not published.		

Major footwear exporters to UK etc

	Quotas	Duty	Notes
Taiwan	?	65%	
Korea	De facto zero	80%	
Brazil	(100% import deposits)	170%	
India) Pakistan)	De facto zero		
Spain	(Some internal subsidies)	34%	Second largest source of UK imports.

6 Annexe C

THE LEATHER INDUSTRY

Our Company, and I believe the Leather Industry as a whole, recognises the Government's policy in creating a greater sense of reality at all levels throughout British Industry, in order to squeeze out inflation, and make large sections of industry more efficient, and therefore competitive in world markets.

We accept this challenge readily, but would only expect the Government to be equally realistic in establishing comparable trading conditions for our Industry with other countries. Our Industry has always been a very international one, which believes in Free Trade, and only asks that as far as possible it should also be Fair Trade.

The Leather Industry in Britain and in the other countries within the EEC has suffered badly - and continues to do so - as a result of quite unfair competition from certain countries. Summarised below is the situation in four major leather-producing countries, although it must be noted that there are other nations which assist or protect their Leather Industry in different, but significant, ways.

1. ARGENTINA prohibited exports of raw hides and skins from 1971 until October 1979. In 1979 following negotiations with the USA, who gave (universally) concessions on corned beef, cheese and finished leather, Argentina replaced the ban with a 20% export duty and promised to phase out this duty in four equal stages in April and October 1980 and 1981. However, the Americans complained that she artificially inflated the official export price on which the duty was calculated and brought into line with world prices only in April 1980 without, however, reducing the duty to 15%. She reduced the duty to 10%, however, on October 1 1980.

   UK imports of dressed leather from Argentina:

   1975: 2.9 million square feet
   1979: 13.0 million square feet
   Increase: + 348%

2. BRAZIL imposed a ban on exports of hides and skins in 1973 and has since developed well-equipped tanning and shoe-making industries which are amongst the biggest in the world. In December 1979 she imposed a 30% export tax on leather, and removed subsidies, which had been the subject of a successful threatened countervailing duty application by the Community leather industry earlier in the year. In April 1980 she allowed exports of raw hides and skins subject to a 36% export tax and reduced the export tax on leather to 18%. The Americans tried to persuade, without success, the Commission to put combined pressure on the Brazilian Government to gradually eliminate their tax at least on 30% of the supply. Eventually the Americans alone negotiated that the Brazilians would reduce the taxes to 18% on hides and skins, and 5% on finished leather. Brazil levies an import duty on leather of 170%.

   UK imports of dressed leather from Brazil:

   1975: 9.7 million square feet
   1979: 35.0 million square feet
   Increase: + 260%

3. INDIA gives export subsidies of 7½% on leather, 15% on footwear, 12.5% on stitched uppers and leather garments. A 25% tax was imposed some time ago and annually reducing quotas on exports of unfinished leathers. The quotas are now below normal world demand; the export tax on crust and wet blue leather was reduced from 25% to 10% as from January 7th 1981. She gives an airfreight subsidy which enables lighter weighing leather to be shipped to North America and Europe at sea freight rates. Indian leathers, either in the piece or in the form of stitched uppers, have been selling in North America and Europe at 40% below leathers made in Europe from the same tanned rawstock.

UK imports of finished, or near-finished leather from India:

1975: 10.3 million square feet
1979: 23.0 million square feet
Increase: + 223%

Please see Appendix 1, which explains how a "protected" raw material market materially affects the price of the hides and skins as compared to the Open or Free Market.

4. JAPAN has no hides and skins except pigskins, but has built up a large and flourishing leather industry on imported raw hides from USA, of which she is the biggest purchaser. She protects this industry, ostensibly in aid of the underprivileged outcaste class of workers, by a low global quota on most types of leather and high duties on the other leathers, and a similar low global quota on imports of footwear. Yielding to pressure from USA and Australia, she granted in 1980 special individual additional (though still small) quotas for American and Australian finished hide leathers. Japanese leather is on offer in world markets at prices significantly below European prices for equivalent leather, and Japan is a major world exporter of finished leather. COTANCE, the European Confederation of Tanners and Dressers, has applied to the Commission to negotiate either the removal of the import quota system, or the granting of a special substantial quota for EEC leather.

EEC exports to Japan:

1975: approximately 1,580,000 square feet
1978: approximately 1,850,000 square feet

Japanese exports to EEC:

1975: approximately 37,620,000 square feet
1978: approximately 42,660,000 square feet

Net Japanese imports into EEC:

1975: approximately 36,040,000 square feet
1978: approximately 40,810,000 square feet

For the year ended December 31st 1980, the import figures from the above countries may have been reduced.

This, however, would be the result of the poor demand for leather in the West, which has produced a significant drop in the price of raw hides and skins in their free markets narrowing the price differential between these and the protected markets. In addition, manufacturers of shoes, garments, gloves etc. have gone through aperiod of heavy destocking, and in this situation have been less willing to import leather from Argentina, Brazil, India and Japan, with the longer lead times which this inevitably means. The position will, however, revert when the demand for leather improves worldwide.

We now urge the Department of Industry to consider the Leather Industry's case with a view to effecting through the EEC removal of the restrictive practices and subsidies applied by these nations, and only if this is not forthcoming then countervailing duties should be introduced on imported semi-finished and finished leather and made up articles.

J W W PITTARD
16 January 1981

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CONFIDENTIAL Briefing folder.

MR ALEXANDER

UNITED KINGDOM TRADE POLICY: PRIME MINISTER's AD HOC MEETING ON 8 SEPTEMBER

The postponed ad hoc meeting of a small group of Ministers to discuss trade policy will now take place at 1030 on 8 September. I attach a brief on which the Prime Minister might find it helpful to draw in the discussion.

M D M FRANKLIN

CABINET OFFICE SW1

4 September 1981

CONFIDENTIAL

PRIME MINISTER'S AD HOC MEETING, 8 SEPTEMBER 1981

UNITED KINGDOM TRADE POLICY

BRIEF FOR THE PRIME MINISTER

BACKGROUND

1. At the suggestion of the Chancellor of the Exchequer in his undated July minute on this subject, you have arranged an ad hoc meeting on 8 September with the Chancellor, the Lord Privy Seal, the Minister of Agriculture and the Secretary of State for Trade to discuss the two main issues raised by the Chancellor, namely

Flag A

(i) the constraint which the United Kingdom's membership of the European Community places on our ability to react quickly and flexibly to particular trade problems;

(ii) whether the right machinery exists in Whitehall for dealing with specific import problems as they arise.

2. The Secretary of State for Trade, the Lord Privy Seal and the Minister of Agriculture have also commented, in minutes or letters dated 22 July, 31 July and 10 August respectively. In broad terms, the Minister of Agriculture shares the Chancellor's concern about (i) above, especially with regard to imports from other member states, but does not see much prospect of improvement. The Secretary of State for Trade points to the inescapable legal realities of the common market, while the Lord Privy Seal questions the Chancellor's thesis, arguing that the real constraints on our trade policy derive

Flag B

from our participation in the open world trading system as embodied in the GATT rules. On (ii) above, neither the Secretary of State for Trade nor the Minister of Agriculture see any need for new machinery.

The 1980 E Committee Conclusions

FLAG B. 3. In his minute of 22 July the Secretary of State for Trade suggested that earlier E Committee papers on Britain's International Trade Policies (E(80)43) and Non-Tariff Barriers to Trade (E(80)57), by Mr Nott and Sir Geoffrey Howe respectively, would be relevant to the discussion at your meeting. FLAG D, FLAG C

4. The first of these earlier papers noted that

- exports of goods and services accounted for about one third of the United Kingdom's GDP, and that our dependence on exports was higher than any other industrial nation of comparable size and much greater than that of the USA or Japan;

- responsibility for tariff/quota questions had passed to the Community under the Treaty of Accession;

- a wide range of import restraints already existed on textiles from low cost sources, on one third of our imports from Japan, on steel imports from the developing world, on footwear from

South Korea and Taiwan, and on imports of most disruptive manufactures from Eastern Europe. Some took the form of industry to industry voluntary agreements, not subject to Community control; others were negotiated on our behalf by the Community.

5. The paper's main conclusions, which were broadly endorsed by E Committee on 25 June 1980, were that the Government's present policy of open trading and resisting pressures for the general introduction of import controls should be upheld; but that the Government should continue to fight dumping and other unfair trade practices, to maintain those import controls which already applied in sensitive areas, to use procurement policy to assist British industry constructively, and to negotiate for better overseas access for exports, and for the removal of non-tariff barriers for trade where practicable. (E(80)21st Meeting Minute 2.) To deal with the problem of reaching quick decisions on questions affecting exports, EX Committee was set up under your Chairmanship.

FLAG E

6. The second of the two earlier papers contained recommendations, which were endorsed by E Committee at the same meeting (E(80)21st Meeting, Minute 3), for a number of measures designed to assist British manufacturers by seeking the removal of other countries' non-tariff barriers or pursuing the possibility of introducing new NTBs in four areas in the United Kingdom. These latter were: the accelerated payment of VAT on imports, a Community ban on the

FLAG F

import of leather containing sperm whale oil, the introduction of a national type approval scheme for commercial vehicles, and the development of new national safety standards.

Community constraints

7. The Chancellor's minute distinguishes between the constraints which apply to unilateral action against disruptive imports from third countries, on the one hand, and those from other EC member states on the other.

8. As to the former, the Chancellor proposes that we should press strongly in the Council for greater freedom for member states to take national action against disruptive imports; while the Secretary of State for Trade's minute points out that we are in this field bound by the common commercial policy and the Treaty of Rome, and that proposals currently under discussion in Brussels would if adopted result in some further reduction in the scope for national action. (The present rules allow member states to introduce quotas without prior Community approval in urgent cases, but all such quotas are subject to confirmation by the Council.)

9. The Secretary of State for Trade and the Lord Privy Seal may argue that we cannot realistically hope to reverse the process of completing the common market, from which our industries anyway gain and for which we are arguing strongly in other contexts eg insurance and air services and fares. It is not clear in any case how freedom

to take national action could be exercised without inviting retaliation and in a way that would be compatible with our GATT obligations. Moreover, if we want to use the weight of the Community to bring pressure to bear eg on Japan, we must be ready to accept some degree of Community co-ordination.

10. As to the latter, formal import controls against the exports of our Community partners would be incompatible with Community law, unless justified under the limited health, security etc. exceptions specified in the Treaty. The Lord Privy Seal argues that the proper safeguard lies in the Community's competition rules, which have been applied successfully by the Commission in the steel sector to our benefit. But the Minister of Agriculture contends that in the agricultural sector the Community's attempts to control illegal state aids have been ineffective, and cannot in any case avail against aids which the Commission regard as legal. Hence his resort in the case of turkeys to action on the basis of animal health provisions to deal with a problem which is essentially economic. This measure may yet provoke a legal challenge or retaliation by the French, but it should at least remove the threat to the British turkey market next Christmas.

11. It might also be possible, as the Chancellor suggests, to use administrative means ie non-tariff barriers to limit damaging import penetration in other sectors, provided - as E Committee agreed last year - we could find a legally watertight justification in each case.

If the Chancellor presses this point, you might think it useful as a first step for the Treasury to report on the progress made in the four areas of action agreed last year (paragraph 6 above).

Whitehall machinery

12. The Chancellor suggests that there are no systematic means of dealing with specific cases of import disruption when they arise, whilst still taking account of wider considerations including the danger of retaliation. The Secretary of State for Trade does not believe that new co-ordinating machinery is necessary and fears that it would merely slow things up.

13. EX Committee was created (paragraph 5 above) to deal with export problems. Only two meetings of the Committee have so far been necessary. There is no precise counterpart dealing with import problems. But OD(E) and its official Committees can and do tackle any trade issue arising in the Community context, which must cover the great majority of all candidates for selective safeguard measures; and E Committee takes broad issues of trade policy of the kind discussed in June last year.

HANDLING

14. You might invite the Chancellor of the Exchequer to open the discussion in the light of his minute.

15. You might then focus discussion on each of the Chancellor's points in turn:-

(i) How far should we push for Community agreement to greater national freedom of action against imports from third countries? (Paragraphs 8 and 9 above.)

(ii) What scope is there for action against imports from other Community countries, through import controls, more effective Commission action against illegal state aids, or through administrative means? (Paragraphs 10 and 11 above.)

(iii) Is there a need for new or different co-ordinating machinery in Whitehall? (Paragraphs 12 and 13 above.)

CONCLUSION

16. Subject to the discussion you may wish to conclude

(i) <u>either</u> that the discussion has been useful in clarifying a number of issues but that there is no case for pursuing the general subject of United Kingdom trade policy further at this stage

<u>or</u> that the Chancellor of the Exchequer should put any specific proposals for changes in the Community's import regime to OD(E), and any new proposals for

United Kingdom non-tariff barriers to E Committee, reporting at the same time on progress made in the four areas identified as potentially helpful by E Committee last year;

(ii) that the existing co-ordinating machinery should stand.

Cabinet Office SW1

4 September 1981

CONFIDENTIAL

Ore B

Trade

10 DOWNING STREET

From the Private Secretary

17 August 1981

The Prime Minister has seen the Minister of Agriculture's minute of 10 August about United Kingdom trade policy. She looks forward to discussing these issues at the meeting which has now been re-arranged for 9 September.

I am sending copies of this letter to Peter Jenkins (HM Treasury), John Rhodes (Department of Trade), Michael Arthur (Lord Privy Seal's Office) and David Wright (Cabinet Office).

M. A. PATTISON

Miss Kate Timms,
Ministry of Agriculture, Fisheries & Food.

CONFIDENTIAL

2

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

Prime Minister
The meeting on trade policy has been rearranged for 9 Sept. (You have seen the earlier papers).

CONFIDENTIAL

PRIME MINISTER

UNITED KINGDOM TRADE POLICY

As it proved necessary to cancel the meeting you had arranged for Monday 3 August, I thought it might be helpful to let you have some comments now on the minutes you have received from the Chancellor of the Exchequer, the Secretary of State for Trade and the Lord Privy Seal about the United Kingdom's trade policy.

I believe that the Chancellor is right to be concerned at the constraints which our membership of the Community puts on our ability to react effectively to damaging penetration of our markets from third countries and from other Member States. Certainly, difficult problems arise in the agricultural sector where, given the perishable nature of much agricultural produce, a particularly quick response is often essential. It is true that the Community has at its disposal under the CAP a formidable armoury for dealing with agricultural imports from third countries, but the steps needed before the Community can take effective action can be lengthy and in the majority of cases there is, of course, no scope for national action.

I am even more concerned at the limitations on our ability to prevent damage to our industries from other Member States' imports. The Lord Privy Seal points out, in his minute of 31 July, that the Community has a competition policy designed to prevent unfair competition between Member States. But the Commission's attempts to keep tabs on, let alone to control, the many illegal state aids in the agricultural sector have been singularly ineffective. And there is no attempt whatsoever to tackle the problems arising from the use of aids which may technically be legal. For example, the Commission now appear to regard the various aids which the French Government have been pumping into their turkey industry as legal. But this does not alter the fact that, as explained in the paper enclosed with my letter to the Foreign Secretary of 31 July, these aids are threatening to wipe out an important sector of our agricultural industry. This cannot be right; nor can it be in the long term interests of the CAP. Indeed, in the case of a commodity, such as poultry, which is not supported by intervention buying, the use by a Member State of subsidies could all too easily lead to the collapse of the Community regime for the product.

CONFIDENTIAL

I am very conscious that it will be very difficult to find ways of improving on the present position. But I agree with the Chancellor that we should have a talk to see if there is anything we can do. As for the Whitehall machinery for dealing with specific cases, I agree with the views expressed by the Secretary of State for Trade in his minute of 22 July.

I am sending a copy of this minute to the Chancellor of the Exchequer, the Secretary of State for Trade and to the Lord Privy Seal.

PETER WALKER
10 August 1981

CONFIDENTIAL

Removed from PM's file: Wider Energy brief 20.8.81 [illegible]

Ref. A05367

MR. LANKESTER

Prime Minister's Ad Hoc Meeting on 3rd August on United Kingdom Trade Policy

I understand that the Prime Minister has convened a meeting of a small group of Ministers at 4.00 pm on 3rd August to consider minutes from the Chancellor of the Exchequer and the Secretary of State for Trade on United Kingdom trade policy.

2. I attach a brief on which the Prime Minister might find it helpful to draw in the discussion.

RtA

ROBERT ARMSTRONG

31st July, 1981

CONFIDENTIAL

PRIME MINISTER'S AD HOC MEETING, 3 AUGUST 1981

UNITED KINGDOM TRADE POLICY

BRIEF FOR THE PRIME MINISTER

BACKGROUND

FLAG A 1. At the suggestion of the Chancellor of the Exchequer in his recent undated minute on this subject, you have arranged an ad hoc meeting on 3 August with the Chancellor, the Lord Privy Seal, the Minister of Agriculture and the Secretary of State for Trade to discuss the two main issues raised by the Chancellor, namely

(i) the constraint which our membership of the European Community (EC) places on our ability to react quickly and flexibly to particular trade problems;

(ii) whether the right machinery exists in Whitehall for dealing with particular import problems as they arise.

FLAG B 2. In his minute of 22 July the Secretary of State for Trade has offered preliminary comments on the Chancellor's minute and suggested that earlier papers on Britain's International Trade Policies FLAG C
FLAG D (E(80)43) and Non-Tariff Barriers to Trade (E(80)57), by Mr Nott and Sir Geoffrey Howe respectively, will be relevant to the discussion at your meeting.

3. The first of these earlier papers noted that

- exports of goods and services accounted for about one third of the United Kingdom's GDP, and that our dependence on exports was higher than any other industrial nation of comparable size and much greater than that of the USA or Japan;

- responsibility for tariff/quota questions had passed to the Community under the Treaty of Accession;

- a wide range of import restraints already existed on textiles from low cost sources, on one third of our imports from Japan, on steel imports from the developing world, on footwear from South Korea and Taiwan, and on imports of most disruptive manufactures from Eastern Europe. Some took the form of industry to industry voluntary agreements, not subject to Community control; others were negotiated on our behalf by the Community.

FLAG E

4. The paper's main conclusions, which were broadly endorsed by E Committee on 25 June 1980, were that the Government's present policy of open trading and resisting pressures for the general introduction of import controls should be upheld; but that the Government should continue to fight dumping and other unfair trade practices, to maintain those import controls which already applied in sensitive areas, to use procurement policy to assist British industry constructively, and to negotiate for better overseas access for

exports, and for the removal of non-tariff barriers for trade where practicable. (E(80)21st Meeting Minute 2). To deal with the problem of reaching quick decisions on questions affecting exports, EX Committee was set up under your Chairmanship.

FLAG E

5. The second of the two earlier papers contained recommendations, which were endorsed by E Committee at the same meeting (E(80)21st Meeting, Minute 3), for a number of measures designed to assist British manufacturers by seeking the removal of other countries' non-tariff barriers or pursuing the possibility of introducing new NTBs in four areas in the United Kingdom. These were: the accelerated payment of VAT on imports, a Community ban on the import of leather containing sperm whale oil, the introduction of a national type approval scheme for commercial vehicles, and the development of new national safety standards.

FLAG F

Community constraints

6. The Chancellor's minute distinguishes between the constraints which apply to unilateral action against disruptive imports from third countries, on the one hand, and those from other EC member states on the other.

7. As to the former, the Chancellor proposes that we should press strongly in the Council for greater freedom for member states to take national action against disruptive imports; while the

Secretary of State for Trade's minute points out that we are in this field bound by the common commercial policy and the Treaty of Rome, and that proposals currently under discussion in Brussels would if adopted result in some further reduction in the scope for national action. (The present rules allow member states to introduce quotas without prior Community approval in urgent cases, but all such quotas are subject to confirmation by the Council.)

8. The Secretary of State for Trade may argue that we cannot realistically hope to reverse the process of completing the common market, from which our industries anyway gain and for which we are arguing strongly in other contexts eg insurance and air services and fares. It is not clear in any case how freedom to take national action could be exercised without inviting retaliation and in a way that would be compatible with our GATT obligations. Moreover, if we are seeking to use the weight of the Community to bring pressure to bear eg on Japan, we must be ready to accept some degree of Community co-ordination.

9. As to the latter, formal import controls against the exports of our Community partners would be incompatible with Community law, unless justified under the limited health, security etc. exceptions specified in the Treaty. But where, as in the case of French turkeys, such imports are made possible by Government subsidies, it is the Commission's duty to investigate the aids concerned to see whether they are lawful under the Community's competition rules. Mr Walker

FLAG G reported to Cabinet on 23 July that he would shortly put a paper to colleagues (presumably in OD(E)) on the question of French turkeys. (CC(81)29th Conclusions Minute 3.)

10. It might also be possible, as the Chancellor suggests, to use administrative means ie non-tariff barriers to limit damaging import penetration, provided - as E Committee agreed last year - we could find a legally watertight justification in each case. If the Chancellor presses this point, you might think it useful as a first step for the Treasury to report on the progress made in the four areas of action agreed last year (paragraph 5 above).

Whitehall machinery

11. The Chancellor suggests that there are no systematic means of dealing with specific cases of import disruption when they arise, whilst still taking account of wider considerations including the danger of retaliation. Mr Biffen does not believe that new co-ordinating machinery is necessary and fears that it would merely slow things up.

12. EX Committee was created (paragraph 4 above) to deal with export problems. Only two meetings of the Committee have so far been necessary. It is true that there is no precise counterpart dealing with import problems. But OD(E) and its official Committees can and do tackle any trade issue arising in the Community context, which must cover the great majority of all candidates for selected

safeguard measures; while E Committee takes broad issues of trade policy of the kind discussed in June last year.

HANDLING

13. You might invite the Chancellor of the Exchequer to open the discussion in the light of his minute.

14. You might then focus discussion on each of the Chancellor's points in turn:-

(i) How far should we push for Community agreement to greater national freedom of action against imports from third countries? (Paragraphs 7 and 8 above.)

(ii) What scope is there for action against imports from other EC countries, through import controls, more effective Commission action against illegal state aids, or through administrative means? (Paragraphs 9 and 10 above.)

(iii) Is there a need for new or different co-ordinating machinery in Whitehall? (Paragraphs 11 and 12 above.)

CONCLUSION

15. Subject to discussion you may wish to conclude

(i) that the Minister of Agriculture should proceed with his promised paper on turkey subsidies;

(ii) either that the discussion has been useful in clarifying a number of issues but that there is no case for pursuing the general subject of United Kingdom trade policy further at this stage

or that the Chancellor of the Exchequer should put any specific proposals for changes in the Community's import regime to OD(E), and any new proposals for United Kingdom non-tariff barriers to E Committee, reporting at the same time on progress made in the four areas identified as potentially helpful by E Committee last year;

(iii) that the existing co-ordinating machinery should stand.

Cabinet Office SW1

31 July 1981

LORD PRIVY SEAL

Prime Minister

UNITED KINGDOM TRADING POLICY

I am grateful for the sight which we have now had of the Chancellor's minute of 1 July and the Secretary of State for Trade's minute of 22 July. These will be discussed at your meeting on 3 August.

Flag A
Flag B

2. I would like meanwhile to put on paper some comments on the points raised by the Chancellor.

3. His general proposition is that our membership of the Community imposes a penalty on the United Kingdom in the effective management of our external trade policy, particularly as regards action to curb imports. This seems dubious. The fact is, as the Secretary of State for Trade makes clear in the last paragraph of his minute, that the real constraints on our ability to restraint imports arise from our participation in the open world trading system and, in particular, from our membership of the GATT, which is the international embodiment in treaty form of that system. In cases of difficulties caused for us by imports from outside the Community the first question we ask ourselves is whether we have a case under the GATT for taking action against those imports. I am not aware of any instance where we have had a watertight GATT case and have not then been able to secure the appropriate action by the Community. I accept that the need to convince the Community, and in particular the Commission, that our cases will stand up, can cause delays which are unwelcome to those who think they need protection. But these delays are not different in kind from the delays which are imposed by the need on the part of a

/national

national government to ensure that, for example, Article XIX action is indeed justified by the GATT criterion of 'such increased quantities ... as to cause or threaten serious injury to domestic producers ...'. And of course once action is taken on our behalf on a Community basis we are better placed than we would be on our own so far as compensation to the exporter, in accordance with his GATT rights, is concerned. Thus, when the Community last year took action at our instigation against imports of US synthetics the compensation package then agreed with the Americans involved compensation by the Community as a whole, and not just by the UK. The advantages of this have to be set against any complaints about delays.

4. As to the delay in handling dumping cases, our manufacturers were complaining about such delays long before we joined the Community; the reason for the delays was the same then as it is now, that HMG alone in those days, and HMG plus the Community now, took a lot of satisfying that anti-dumping measures were justified under the GATT. I agree, nevertheless, that unreasonable delays should of course be avoided; that is why we have supported strengthening of that part of the Commission concerned, which has now recently had its staff increased.

5. As for intra-Community trade, the Community has a competition policy which is designed to prevent unfair competition between member states - for example, by its policing of state aids-and the Commission is responsible for chasing up non-tariff barriers which infringe the Treaty. These policies are in our interests and for the most part function reasonably well. I accept that there are difficulties over some imports from other Community countries. There are constant allegations concerning Italian state aids and the unfair competition in a wide range of goods which arises from them, but we should beware of allowing the volume of complaints to exaggerate the real extent of the difficulty. In another case (steel imports into Italy) the

/Commission

LORD PRIVY SEAL

Commission acted successfully against Italian attempts to interfere with trade across their frontier. And on the wider question of the European steel market, the Commission's actions have protected us to an extent which would not have been possible if we were operating outside Community rules. There are other areas in which we suspect unfair competition, and have not yet managed to have a stop put to it. But in the case the Chancellor raises of French turkeys, the element of subsidy has not yet been shown to be illegal. I believe that, whatever the weaknesses, Community competition policy and action against non-tariff barriers nevertheless afford us a degree of protection which would not be available through the GATT alone. We should not lightly place this in jeopardy. I believe in fact that our approach should remain that recommended by the Chancellor himself last year (E(80)57, paragraphs 18 and 19), ie of vigorously pursuing individual cases on their merits.

6. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Trade, and to the Minister of Agriculture, Fisheries and Food.

I.H.G.

31 July 1981

Trade

NOTE FOR THE FILE

I invited today the Minister of Agriculture and the Foreign Secretary to attend the meeting on Monday 3 August to discuss United Kingdom Trade Policy. Mr. Walker will definitely be present (as well as the Chancellor and the Secretary of State for Trade, both of whom have already been invited) and the Foreign Secretary's office will come back about Lord Carrington. If he is unable to attend, Sir Ian Gilmour will do so.

it will be helpful

CS.

28 July 1981

Trade

cc/Mr Wright
(for Mr Franklin)

For mtg folder
and Mrs get
Mrs at x
together?
with R?

R.

PRIME MINISTER

R.

UNITED KINGDOM TRADING POLICY

You have arranged a meeting with the Chancellor, the Minister of Agriculture and myself on 4 August to discuss the Chancellor's recent minute to you under the above heading. I will not therefore comment in detail on the points in his minute at this stage. I would however like to make a suggestion and just a few preliminary comments.

My suggestion is that we should include in the dossier for the meeting a paper (E(80)57) which the Chancellor circulated last year on Non-Tariff Barriers to Trade; a more general paper on Britain's International Trade Policies (E(80)43) by John Nott; and the minutes of the meeting of E Committee on 25 June 1980 at which they were discussed. These papers taken together go a good deal beyond the particular points the Chancellor is now raising, but much of their content - for example the discussion in the Chancellor's paper of the extent to which the use by us of non-tariff barriers is practical or useful - is highly relevant.

Flag C
X
Flag D
Flag E

The comments I would myself like to make at this stage are these. First, we cannot ignore the implications of Community "competence" for safeguard action against imports. Community membership deprives us of full control of our own national trade policy. I have never sought to conceal my views on this matter, but I cannot deny the current European realities. The European Community is first and foremost a common market, which implies free trade within the market and an agreed common external policy. Free trade within the Community (at least for goods) and a common commercial policy for trade with outsiders (together with a Common Agricultural Policy) are required by the Treaty of Rome. They have been comprehensively spelt out in implementing regulations which in many respects have become part of United Kingdom law. Discussions are at present going on in Brussels on changes in the regulations for import controls. These would have the effect of whittling down still further the little scope we now have to take national action. We shall in due course have to take a view on these proposals. But they do illustrate the point that any movement is likely to be in the direction of further trade harmonisation unless we take a conscious and determined policy to thwart this.

My second comment relates to the doubts the Chancellor expresses about whether we have the right machinery in Whitehall for dealing with specific cases of damage to industry from imports. I do not think that any inadequacy in our own machinery is the real problem. My experience so far is that it is the problems inherent in each case (eg Japan, developing country and American textiles) which have led to delays, difficulties or in certain cases a decision to do nothing. A case can always be made for new co-ordinating machinery. But my own instinct is that adding to bureaucracy would merely add to the already excessive daily round of papers and just slow things up.

I am copying this to Geoffrey Howe and Peter Walker.

WJB

J B

Department of Trade
1 Victoria Street
London, SW1H OET

22 July 1981

2

cc Mr Walters
Mr Hoskyns

Prime Minister
The Chancellor is concerned that we are not acting quickly enough against disruptive imports either from within or from outside the EEC. He wishes to discuss at your next meeting with him.
22/7

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

We shall need John Biffen there too

PRIME MINISTER

UNITED KINGDOM TRADE POLICY

The recent visit of the Japanese inevitably brought up once again the question of the policy we should adopt towards certain imports in the light of the trade policies of other countries. This is familiar territory and no-one doubts the problems and complexities. But I have an uneasy feeling that we have not yet got the balance entirely right. There are two aspects which particularly concern me.

2. The first is the considerable constraint which our membership of the European Community places on our ability to react quickly and flexibly to particular problems. This is important both in relation to third countries and to particular threats arising from damaging import penetration from other EC countries (for example the recent case concerning French turkeys). The second aspect concerns the Whitehall and Governmental machinery.

3. On the EC aspects. Selective controls on imports from outside the EC can of course be imposed under the GATT (Article X1X) when imports threaten serious injury to domestic producers. I know from the case of two quotas we imposed last year on synthetic textiles from the US there are considerable difficulties in operating under this Article not least the need except in emergency to seek Commission approval in advance of taking action through the relevant management committee. But I wonder whether we make as much use of the Article X1X

/as we might

as we might and whether the machinery for considering these cases is as expeditious as it should be. I have in mind here cases where a rapid response is needed to severe problems arising suddenly for particular industries on a sectoral basis. Here if action is long delayed it can easily prove to be too late. A related problem is the very lengthy delay in the EC handling of dumping cases. My feeling is that notwithstanding Commission sensitivities about competence we ought to begin pressing very strongly within the Council - using the growing strength of feeling there is on this question in other member states - to press for some more general rule allowing member states greater freedom to take effective and immediate national action against disruptive imports.

4. I am also concerned about our apparent inability to take effective action - either through the introduction of formal import controls or (as others seem to be able to do) through administrative means - against damaging import penetration from other EC countries.

5. This brings me to my second point of major concern. I wonder if we have the right machinery in Whitehall for dealing with specific cases of this kind when they arise. Various interests are always involved and there is usually a variety of possible means of taking action, for example, public purchasing, economic protection and the question of standards. In particular cases we need to consider all possibilities, whilst still taking account of wider considerations including the danger of retaliation. We have no systematic means of doing this.

6. We are of course committed to a general policy of free trade within the framework of our international agreements, and I am not in the least questioning this. But within the general policy we have always recognised the place for selective protectionist measures in special circumstances. What I am

/questioning is

questioning is whether we have the means and machinery for sufficiently swift and effective action in those particular cases and whether we should not devote some considerable effort and energy in the two areas I have suggested to improving the position.

7. Perhaps we could discuss this general question and its handling at our next regular meeting?

G.H

GEOFFREY HOWE

Trade

PRIME MINISTER

You have agreed to send a message to launch the BOTB's "Export Europe" campaign which starts next week.

The Department of Trade have now asked if you would be willing to record - rather than sign - a short message so that it can be played at the opening national conference and subsequently regional conferences.

I attach a draft speaking note for the purpose and Caroline has squeezed 10 minutes into your diary on Friday (1545 hours 19 June).

Content to record?

NG

NEVILLE GAFFIN
15 June 1981

EXPORT EUROPE

Draft speaking note

Everyone attending this conference today knows that overseas trade is vital to our economic health.

And everyone here knows that Western Europe is our biggest challenge.

We have made tremendous efforts to sell our goods in the European Community, the EFTA countries and Spain in the last few years.

But we still have a relatively small share - only 6½% - of this enormous market.

It is five times the population of the United Kingdom. It has six times the buying power. And, as every export salesman knows, it is a tough, sophisticated and quality-conscious market.

No-one pretends that exporting to Western Europe is easy.

It depends, first, on your product. You must be able to beat your competitors. Your price, your design, your reliability, your delivery and your after-sales service - they all count.

It depends too on the sales efforts of hundreds of individuals - and the way they are backed up by their companies.

Many of the people attending this conference today have already proved that they can export successfully - and profitably - to Western Europe even in difficult times.

I believe that their achievements can and should encourage others.

/That

That is what the "Export Europe" campaign is all about.

I hope that you will find today's conference a valuable and illuminating experience. And I hope that, as a result, you will all help to make the "Export Europe" campaign a great success.

Other Points

1. UK exports to Western Europe now 58% of total exports (compared with 34% in 1960 and 46% in 1970)

2. But they are still growing very slowly at 6½% of total market.

3. UK sales to West Germany = 6.5% total market (Netherlands 12%, France 11%, Italy 8%)

UK sales to France = 5.5% total market (Germany 16%, Italy 10%)

UK sales to Italy = 4.5% total market (Germany 17%, France 14%)

4. Western Europe imported an estimated £300 billion of goods last year.

MS

10 DOWNING STREET

From the Private Secretary

14 May 1981

Exports to Western Europe Symposium

The Prime Minister has seen your letter to me of 6 May inviting her to open the above Symposium. As I have already told you, it has not proved possible to fit this engagement into her diary. If you think it would be useful for the Prime Minister to send a message to the Symposium, you will no doubt let me have a draft.

I am sending a copy of this letter to Francis Richards (Foreign and Commonwealth Office).

MA

Mrs. Catherine Capon,
Department of Trade.

SECRET

PRIME MINISTER

OPENING EXPORTS TO WESTERN EUROPE SYMPOSIUM: 25 JUNE

Can I please ask you to re-consider this invitation? 25 June is a Thursday and you have Cabinet in the morning; Questions; followed by about a two-hour briefing meeting for your visit to Luxembourg on Monday 29/Tuesday 30 June. These commitments would mean opening the Symposium in the evening, but you already have one speech that week on Tuesday 23 June, as well as an out-of London visit on the Monday (Polaris). If you accept this invitation, we will simply end up with the problems we have been having recently.

Agree to refuse? Yes

M

C.P.

11 May 1981

SECRET

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

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(1)

Prime Minister.
This is already a very busy period in the diary. I would have thought a message should suffice. Agree?
M

From the Secretary of State

M O'D B Alexander Esq
Private Secretary
10 Downing Street
London, SW1

Will do - briefly. We must tell to Minister not.

6 May 1981

Dear Michael

INVITATION TO THE PRIME MINISTER TO OPEN EXPORTS TO WESTERN EUROPE SYMPOSIUM: 25 JUNE

In January, the British Overseas Trade Board approved proposals put forward by the Department of Trade's Exports to Europe Branch for a major promotion of the West European market. The main aims of the promotion are:-

i) to stress the economic importance of Western Europe as an extension of the home market;

ii) to encourage medium and smaller companies to examine the potential of the market for their own products or services; and

iii) to provide practical advice and information to help point companies in the right direction.

The promotion will consist basically of two elements, media publicity and regional conferences. The publicity campaign is already under way and will intensify during the year. The start of the "hard sell" will take place towards the end of June and will be accompanied by the release of both a film and a book. The meat of the campaign will begin after the summer break and will consist of a series of major regional conferences.

The programme will be launched on 25 June at a symposium to be held in the Clothworkers Livery Hall in London. The purpose of this event is to highlight the importance of the West European market and, in particular, to promote and stimulate interest in the conferences and other associated activities. It is primarily aimed at the media and at representative organisations (Chambers of Commerce, Professional Institutions, Trade Associations etc) and is intended to obtain the maximum publicity. In order to both stimulate interest and to endorse the message, top management from British industry will be well represented. There will also be contributions from the Minister for Trade, the Chairman of the BOTB, the Chairman of the European Trade Committee of the BOTB, and the Secretary of State also hopes to participate. The event, which

From the Secretary of State

will be supplemented by audio visual aids, will be professionally scripted and produced by the COI. In addition to all the major daily and weekly papers and journals there should also be good TV coverage.

It is planned that the event should begin at 4 pm and last for about 1¾ hours. The set-piece presentation should take about an hour with the remaining time being devoted to an open forum discussion. It will be followed by a reception which will provide an opportunity for a more informal exchange of views as well as a chance to give the press further detailed information and briefing.

In view of the importance we attach to encouraging more companies to take advantage of the opportunities offered by the West European markets, my Secretary of State was hoping that the Prime Minister might consider supporting this event. He has asked me to enquire whether she would be willing to open the proceedings. It would not be necessary for her to stay throughout the whole event but if her diary allowed her to do so, it would obviously be much appreciated, particularly if she were to participate in the open forum. There is no doubt that her presence would do a lot to enhance the impact of this initial event and to ensure success for the subsequent regional conferences. The timing in relation to our taking over the EC Presidency is also good.

I am sending a copy of this letter to Roderic Lyne (FCO).

Yours sincerely

Catherine Capon.

CATHERINE CAPON
Private Secretary

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

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~~MODBA~~ G see o/R
AC
Trade

MAP 16/4.

From the Secretary of State

Roderic Lyne Esq
Private Secretary to the Secretary of State
for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

15 April 1981

Dear Roderic,

MINISTERIAL VISITS OVERSEAS: CO-ORDINATION OF TRADE PROMOTION VISITS

We have been giving some thought to the question of co-ordination of Ministerial visits overseas which could include trade promotion as an objective. Ministerial visits are an important part of our general trade promotion activities and we should like to get the best value we can out of them.

At the moment, we are not sure that our efforts are always directed at the right target at the right time. There has been a tendency for certain countries or regions to receive a considerable amount of Ministerial attention in the field of trade promotion, at least over a short period of time. That would be entirely appropriate if a conscious decision had been taken to focus Ministerial attention in such a way but we are not sure that has always been the case. Conversely, other countries or regions may be neglected, or comparatively neglected in relation to others which, again, might be quite right and proper if it were the result of a conscious decision but it is not always clear that that is so.

The principal device for keeping track of proposals for Ministerial visits is the schedule that your Department distributes monthly based on information provided by other Departments. But by the time a visit is included in the schedule, it is sometimes already beginning to take shape; there may then be insufficient time for consideration of its commercial aspects. Nor does the stage at which a Minister seeks permission for a visit from his colleagues principally concerned normally provide an early and adequate enough opportunity for Departments to express views.

Some Departments whose Ministers undertake visits with a trade promotion content (in whole or in part) as an extension of their sponsorship responsibilities already turn to our country branches for advice about where the best opportunities lie as between

From the Secretary of State

particular product sectors and between different markets. We think it would be both logical and sensible to extend this arrangement and to make our country branches the primary co-ordinating point for the trade promotional aspects of any Ministerial visits. In this way we would hope to avoid the present drawbacks I have mentioned - possible over-concentration on some markets and neglect of others - and thus help to bring about a better co-ordinated programme of Ministerial visits as a whole. If you and copy recipients agree, therefore, we should be grateful if, where trade promotion may be an objective, Departments would consult us at the earliest possible stage, both as to markets to be visited and the timing of visits. Ideally, as already happens in some instances, we should like our country branches to be consulted before internal departmental submissions to Ministers are made on any visit with a trade promotional angle.

I am sending copies of this to the Private Secretaries to Cabinet Ministers and to David Wright.

Yours ever,

Nicholas McInnes

N McInnes
Private Secretary

Ref: A03732

CONFIDENTIAL

PRIME MINISTER

Objectives and Procedure, and Use of North Sea Oil
(EX(80) 2, 3, 4 and 5)

BACKGROUND

This is the first meeting of the Committee, which was set up on 11th July to ensure that major cases involving Government support of exports are dealt with quickly and efficiently and to keep under review the arrangements for promoting the United Kingdom's international trade objectives. As you have pointed out before, the fact that the Committee has not so far met can be taken as a mark of its success in stimulating Departments to find solutions. At your meeting with the Secretary of State for Trade on 20th October, however, you said that there was now a case for a meeting to discuss the general role of the Committee - Mr. Alexander's letter of 20th October to Trade.

2. There are now three general papers: by the Secretary of State for Trade (EX(80) 2), by the Chancellor of the Exchequer (EX(80) 3), and by the CPRS (EX(80) 4). The Secretary of State for Trade's other paper, EX(80) 5, discusses the use of North Sea oil in support of major capital projects.

3. The main point in the Secretary of State for Trade's paper (EX(80) 2) is that EX might in due course be asked to endorse clear objectives and priorities so as to encourage the most effective support for our industries. He does not however give any indication what they might be. His main point on procedure is that EX should be a court of last resort which might have to meet on occasions at short notice and which should not overlap with the responsibilities of other Cabinet Committees.

4. The Chancellor of the Exchequer's memorandum (EX(80) 3) does not make specific recommendations but summarises some general points on financial support which should be kept in mind. He points out that capital goods exports of the type which would be considered by EX represent only around 5 per cent of total exports. There is very substantial help for exports in general through Trade's export promotion activities and through the ECGD.

CONFIDENTIAL

This is already a heavy burden on the PSBR and public expenditure - the interest rate subsidy payable on fixed rate export credit leads to £500 million of public expenditure in 1980-81. It is important to try to reduce these costs through international consensus on support arrangements. In particular we do not want to precipitate a subsidy war. Against this background, the Chancellor's main conclusion is that any proposal for assistance in a particular case should be supported by full costing and an analysis of the subsidy involved with an assessment of the risks of repercussions (his paragraph 11).

5. The CPRS (EX(80) 4) bring these general arguments together. They recommend in their paragraph 3 that it is important to define priorities and new policy issues as soon as possible so that EX can then look at particular cases in the context of clear guidelines. As a first step they propose, in their paragraph 4, that an analysis should be made of the markets which our main competitors are pursuing, what they offer financially and how they are organised.

6. The Secretary of State for Trade refers in (EX(80) 5) to the possibility of limited supplies of United Kingdom Continental Shelf oil being used as leverage to secure major capital projects. The paper refers to some of the difficulties of this approach and the need to use oil in this way very selectively. The Department of Trade already have some work in hand on identifying priorities in terms of markets and new projects; and the Secretary of State proposes that officials should now look at the issues further and make recommendations.

7. The Secretary of State for Industry suggested in paragraph 8 of his memorandum (OD(80) 73) on defence sales that further consideration should be given to the possibility of using oil sales to secure defence sales. It was agreed that this should be pursued further in the context of the EX discussions.

8. The Foreign Secretary, in his minute of 26th November to the Secretary of State for Energy on refinery and disposal strategy, has proposed that to ensure full interdepartmental co-ordination a new Cabinet Office Official Committee should be set up to look at individual cases and to advise EX. I understand that the Foreign Office have in mind that the cases which will come to EX will, by definition, be complicated and the considerations finely balanced. They feel, therefore, that if Ministers are to reach decisions quickly on the basis of comprehensive advice, with the facts interdepartmentally agreed, an official committee would help.

9. I am not persuaded that there is yeta case for setting up such a committee. A number of the issues are already dealt with under the Treasury's interdepartmental Export Guarantees Committee. This looks at particular proposals for ECGD underwriting in the national interest and also at wider issues on export credit. There will be other proposals for particular cases and package deals which the Treasury Committee would not deal with, but I see no reason why the Department of Trade should not take the lead in these. Provided that they are sensible in calling in all the other Departments involved, Ministers should get comprehensive advice with the facts agreed. You will however wish to sound out the views of the other Ministers on this question.

HANDLING

10. The Secretary of State for Trade, the Chancellor of the Exchequer and Mr. Ibbs will each wish to speak to their papers. Lord Trenchard and Mr. Ridley are representing their Secretaries of State (the Secretary of State for Industry is involved in a Debate in the House, the Foreign Secretary is seeing his Austrian opposite number and the Lord Privy Seal is abroad). The Secretaries of State for Energy and for Defence have been invited for the discussion of the use of oil

11. I suggest that you should first have a general discussion and agree on the areas where further work is necessary. You might then, in the light of decisions on further work, consider whether there is any case for an official supporting committee.

12. The main proposal for further work is that objectives and priorities should be identified. This ties in with the CPRS's proposals for an analysis of practice by our main competitors: the Committee will need to consider in particular whether this is worthwhile or whether sufficient is known already. The other main strand is the further work, proposed in EX(80) 5, on priorities for the use of oil in terms of markets and new projects. This can take account of the relevance to Defence sales in particular.

13. You will then wish to consider whether this general work, and the handling of particular cases which would not bedealt with by the Treasury's Export Guarantee Committee, should be undertaken with the Department of

Trade in the lead or whether an official committee under the Cabinet Office should be set up. I am not convinced that this is necessary: the task could be given to the Department of Trade. If however the Committee feels that there is a case for setting up an official committee, I will put recommendations to you for membership and terms of reference.

Seperate file Trade, Oct 80 Trade with ✓ Mexico & Venezuela

14. Finally, you might take the opportunity to discuss briefly the correspondence following the Secretary of State for Energy's minute of 24th October about his visit to Mexico and Venezuela. You will recall that you suggested that there might be advantage in your hosting a small half-day seminar of industrialists and administrators to foster Government/Industry co-ordination in approaching these two markets - Mr. Alexander's letter of 28th October to the Department of Energy. The Secretary of State for Trade - his Private Secretary's letter of 1st December to Mr. Alexander - has now advised against this. The particular question of the Mexican market is being pursued by the Departments of Trade and Energy. The Secretary of State for Trade's main point, however, is that there might well be other candidates, deserving more priority, for high level seminars of the kind suggsted. If this view is shared generally in EX you might invite the Secretary of State for Trade to consider the possibilities further, perhaps in the course of the further general work which the Committee commissions, and make proposals.

CONCLUSIONS

14. In the light of the discussion the Committee will probably wish to call for further work on:-

(i) the identification of objectives and priorities;

(ii) the analysis of our competitors' activities, as proposed by the CPRS;

(iii) guidelines, and markets, for use of oil to secure major capital projects (including defence sales).

15. They will also wish to:

(a) Decide whether this work, and the handling of particular cases, should be dealt with by the Department of Trade with full consultation with all the other Departments concerned or whether a formal official Cabinet committee should be set up to support EX.

(b) Invite the Secretary of State for Trade to consider further the possibilities for a high-level Government/Industry seminar on a particular market or markets.

RtA

(Robert Armstrong)

3rd December 1980

DEPARTMENT OF TRADE

c.c. PS/MFT
PS/Secretary
Mr Caines
Mr Benjamin PEP
Mr Dick CRE4
Mr Pownall "
Mr Mathani PEP
Mr Knighton
Miss Lackey

From the Secretary of State

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
London SW1P 4QJ

12 November 1980

Dear David

OIL AND EXPORT PROJECTS

We spoke briefly the other day about the possibility of using some BNOC participation oil in support of major British projects overseas. At the time we agreed that it was necessary for us to discuss the general principles at stake as soon as possible. To this end I hope very much that it might be possible for you to attend the first meeting of EX Committee on 27 November.

You may be aware that NEI have been attempting to obtain a major contract for turbines in Romania with an initial value of approximately £200m. This would be of considerable industrial importance, not least for employment in the North of England. It is difficult to say how close we are to winning the contract, but there is a feeling in Bucharest that if we were to offer a certain quantity of oil at what is admittedly a very late stage in the negotiations it could tip the scales our way.

My own feeling is that we must be very careful how we use the offer of access to North Sea oil in winning overseas contracts. Cecil Parkinson recently ruled out such a link to the Romanians. However, I think it would be worthwhile for our Ambassador to be authorised to tell the Romanians that, whilst the situation remains as tight as described by Cecil Parkinson recently, we have been examining our availabilities very carefully, and can now see our way to allocating a quantity of North Sea oil (the terms and timing would of course be dictated by BNOC, save that we should not depart unduly from those offered to Greece); this offer can, however, only be made if the turbine order goes to NEI. Only if the Romanians show genuine interest would it be necessary to ask BNOC to undertake more detailed negotiations.

In view of what you said the other day I am by no means pressing this suggestion with you, and I would not wish to lean on BNOC before we have at least discussed how we can

From the Secretary of State

handle this whole concept. I would be very grateful, however, if you could ask your officials to let us know straight away whether BNOC can help in this case, ensuring that if they do so it will be without prejudice to our consideration of the longer term strategy.

Yours ever

John

JOHN NOTT

CONFIDENTIAL

Subject

File

cc: FCO
HMT
DOI
MOD
CO

Trade

HS

10 DOWNING STREET

From the Private Secretary

20 October 1980

cc Master

Dear Stuart,

EX Committee

As suggested in your Secretary of State's minute of 31 July, the Prime Minister held a short discussion about the future work of EX Committee with Mr. Nott and two of his senior officials this morning.

It was agreed that EX had already proved its value even though it had never met! It had had a useful role as a catalyst. However there was now a case for a meeting at which a general discussion of the role of the Committee could be held. More particularly thought should be given to ways in which the Government could bring more leverage to bear in support of our exporters.

Clearly the members of EX should have a paper before them when they meet and this would most naturally be circulated by the Secretary of State for Trade. Among the subjects touched on at this morning's discussion which might be covered in a paper were the role of aid; the possibility of making greater use of participation oil; and defence sales.

Greece

There was also some discussion this morning of the present state of play in the negotiations with the Greek Government for a power station contract. The Prime Minister commented that this was the sort of issue where a meeting of EX at an earlier stage might well have been useful. It was agreed that there was no question of altering the terms of the offer at this stage. (The Prime Minister stressed that if our offer were not accepted, we should in no circumstances submit a more favourable tender in any subsequent competition.) The Prime Minister indicated however that she remained unhappy about the way the coal element in our tender had been handled. She was not convinced that it would not have been possible to find an open-cast mine in this country, e.g. one in private hands, which could have been dedicated to the power station in Athens. It was agreed that the Secretary of State might have a further word with Sir Derek Ezra about the general question of linking dedicated mines with power stations.

Your Secretary of State also told the Prime Minister that we had, in his view, come close to reaching agreement with the Greek Government on a contract for the supply of tanks. However we

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/ had been

DJG

had been frustrated at the last moment by a German offer of aid linked with the supply of German tanks. It was not clear that the Greeks would necessarily accept the German offer but for the moment our own bid was stalled. The Prime Minister said that it was not acceptable that the German Government should behave like this while they were benefiting from excessively advantageous offset and infrastructure agreements with HMG.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), John Wiggins (H.M. Treasury), Ian Ellison (Department of Industry), Brian Norbury (Ministry of Defence) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Stuart Hampson, Esq.,
Department of Trade.

Ref: A03276

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Trade

PRIME MINISTER

Work of EX Committee

In his minute of 31st July the Secretary of State for Trade asked you for a short briefing meeting to clarify how his Department could best prepare material for this new Committee. He has now sent you a note as a basis for discussion (under cover of his Private Secretary's letter of 13th October to Mr. Lankester). He will bring with him Mr. Caines and Mr. Benjamin, his Deputy and Under Secretary dealing with this work.

2. You decided to set up this Committee on 25th June when E Committee discussed a paper (E(80) 43) by Mr. Nott on Britain's international trade policies (E(80) 21st Meeting, Item 2). Although Mr. Nott did not ask for a new Committee he questioned whether the present divisions of departmental responsibility - mainly between Trade, Industry, the Treasury and the Foreign Office - allowed for a sufficiently quick and effective response in competing for international trade. He further questioned whether the Government might be denying British industry access to some major markets by giving undue weight to foreign policy rather than trading objectives.

3. The terms of reference are:-

"To ensure that major cases involving Government support of exports are dealt with quickly and efficiently and to keep under review the arrangements for promoting the United Kingdom's international trade objectives."

4. The Members, under your Chairmanship, are the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretaries of State for Industry and for Trade. Other Ministers will be brought in as necessary.

5. Mr. Nott has not so far found any cases, or general policy issues, which he wishes to bring to the Committee. Indeed it may be that the very existence of the Committee has concentrated departmental minds in dealing with major projects. The Chancellor of the Exchequer is planning to put forward a general paper on export credits and promotion, probably next month.

6. In his note of 13th October Mr. Nott proposes that the Committee should have three main purposes:-

(i) To remove any interdepartmental log jams in dealing with major projects (his paragraph 4).

(ii) To identify priority projects or export markets which might become special targets for the United Kingdom (paragraph 5).

(iii) To consider any novel policy approaches to improve the prospects for winning projects, including the introduction of new financing facilities (paragraph 6).

7. He will probably take the opportunity to outline some of the current problems facing exporting industries and the Government in trying to help them - for example, the costs of credit packages competitive with those offered by other Governments; the difficulties in exporting to traditional markets, such as black Africa, which are becoming increasingly uncreditworthy; the vulnerability of ECGD to risks (e.g. Turkey, Iran).

8. There is no objection to the proposal that the Committee should be ready to break interdepartmental log jams in the handling of major projects. Your main reason in setting it up was to do precisely this, and the Committee stands ready to meet if Mr. Nott has proposals to put to it. He is however right in implying that the Committee is a court of last resort. Most problems should be dealt with in existing committees, such as E(EA) or between the Ministers concerned.

9. His more general proposals, (ii) and (iii), are within the Committee's terms of reference. You will not however wish to prejudge any particular proposals which Mr. Nott might put forward at this meeting. It may well be that changes need to be made, but these must be on the basis of considered and specific proposals on which the other Ministers responsible can have an opportunity to put their case. In particular it is essential that any proposals for further expenditure, or different methods of financing, should deal fully with the financial implications - for example, how any additional public expenditure should be offset; and the implications for monetary policy. If Mr. Nott intends to put forward proposals with financial implications his Department should, in the normal way, first discuss them with the Treasury;

and with the Department of Industry and the Foreign and Commonwealth Office if what he has in mind has implications for the Industry and Aid Programmes.

10. To sum up you might conclude by telling Mr. Nott that the Committee will meet when he - or any of the other members - is ready to put papers to it. He should bring out financial implications to his proposals clearly and consult colleagues on them first. The ball is now in his court.

RA

(Robert Armstrong)

17th October 1980

LORD PRESIDENT OF THE COUNCIL

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

The Rt Hon Sir Keith Joseph, Bt, MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

16 October 1980

Dear Keith,

ZIMBABWE AND BRITISH STEEL

You will have seen my recent exchange of correspondence with Geoffrey Howe about possible Government assistance to UK exporters.

I am glad to hear that he thinks we are doing as much as we can to help exporters. You might be interested to hear however of a case involving British Steel and Zimbabwe, which seems to me to highlight the lack of competitiveness of parts of our industry, when trying to secure business abroad.

It seems that earlier this year the Zimbabwe Government put out to tender a large contract for the supply of steel rails for the modernisation of their rail system. I am told by an impeccable source that Zimbabwe very much hoped to be able to give the order to the UK. The main contenders were firms from the Federal Republic of Germany, Austria, USA, South Africa, and British Steel. The first three all quoted a price of about Rhodesian $90 (£60) a tonne (excluding freight charges). The South African quote was $5 higher, but they eventually won the order because of lower freight charges. The price quoted by British Steel was around $150 (£100) a tonne (also excluding freight) ie over 50% higher than the nearest competitor. I understand that at one point this contract was considered as a possible candidate for an aid and trade package. The idea was eventually dropped - not surprisingly in view of the price difference. The depressing conclusion is that no matter what we do to encourage exporters, those like British Steel are unlikely to win many orders.

To be fair I should record that the same source told me that other sections of British industry were having some success in exporting goods to Zimbabwe. In particular those in the market for heavy plant and machinery were keen to place their orders with British firms for reasons of quality, reliability, and useful support from the Export Credit Guarantee Department.

I am sending copies of this letter to the Prime Minister, Peter Carrington, John Nott, Robert Armstrong, and Robin Ibbs.

Yours ever

Christopher

SOAMES

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

Trade

From the Secretary of State

CF - for my file

TL

Tim Lankester Esq
Private Secretary
10 Downing Street
London, SW1

13 October 1980

Dear Tim,

MEETING TO DISCUSS EX COMMITTEE: 20 OCTOBER

As background to the meeting between the Prime Minister and my Secretary of State on 20 October to discuss EX Committee I enclose a note to serve as the basis for discussion setting out his thoughts as to how the Committee might operate.

I am copying this letter to David Wright.

Yours sincerely,

Stuart Hampson

pp N McInnes
Private Secretary

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BACKGROUND NOTE FOR MEETING ON 20 OCTOBER BETWEEN THE PRIME MINISTER AND THE SECRETARY OF STATE FOR TRADE TO DISCUSS EX COMMITTEE

The Committee's terms of reference are:

> "To ensure that major cases involving Government support of exports are dealt with quickly and efficiently and to keep under review the arrangements for promoting the United Kingdom international trade objectives."

2 The objectives for this briefing meeting are to agree more precisely

- (i) the purpose of the Committee;
- (ii) the nature and scope of the material to place before it;
- (iii) the timing of meetings.

PURPOSE

3 The Secretary of State for Trade considers that the Committee should have the following main purposes:

- (i) to remove any inter-Departmental log-jams which arise in orchestrating full HMG support to UK firms pursuing major trade opportunities overseas. Most of these are expected to occur in the projects field where problems between Department associated with eg finance, credit and aid are most likely to arise.

(ii) to identify particular projects or export markets which would become special targets for the UK to pursue, using all resources open.

(iii) to consider any novel policy approaches to improve the prospects for winning projects.

energy? coal suppliers.

NATURE AND SCOPE OF THE WORK

Log Jams

4 A large number of major projects are being pursued by UK companies at any one time on which the Departments concerned are in continuous touch about the best form and timing of support. The Committee would only be used where the normal machinery seems unlikely to produce a solution in time. An example of the sort of problem which could go to EX in the near future is the ECGD cover on the £1,000m Castle Peak 'B' contract which would raise ECGD exposure in Hong Kong to a controversial level.

Priorities

5 A feature of the approach of our competitors is to focus their national effort on particular opportunities. To make the best of our limited resources, we should do the same, and in order to secure the necessary degree of Government commitment, it could be useful for the Committee to endorse suggestions that on trade and industrial grounds special HMG support should be applied to gain selected particularly important projects.

Defence

The Department of Trade is planning to establish a continuing dialogue with the main project companies on the market priorities as they see them. EX Committee might subsequently be asked to endorse clear objectives and priorities, and thus help the Government machine to proceed rapidly and flexibly to ensure success, using any necessary devices and measures, eg Royal and senior Ministerial visits, to maximise the UK's leverage.

New Policy Issues

6 There may well be a need to introduce new facilities to match the flexibility of the competition. There may also be particular lines of action where the fullest Government commitment may be needed if UK industry is to have a chance of success:

(a) Persuasion may be needed to achieve the best British entry so that maximum HMG support can be given.

(b) Key projects may arise in politically sensitive markets, where some measure of support may imply uncomfortable involvement.

(c) New facilities, such as more flexible foreign currency financing, measures to encourage investment relevant to a project, or to establish a position in the market may be called for.

MEETINGS

7 Log jams arise unpredictably and require urgent solutions. The Committee may have to meet at short notice if need be. Priorities and policy issues can be raised on a more measured basis. Care would be taken not to cross wires with other Cabinet Committees.

10 October 1980

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Trade

2 pps

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

7 October 1980

R 8/10

The Rt. Hon. Lord Soames GCMG CH GCVO CBE
Lord President of the Council

Dear Christopher

Thank you for your letter of 5 September - attached. I am sorry that you have not had an earlier reply.

I share your concern that, in current difficult world trading conditions and with the loss of price competitiveness of UK goods, we should do everything possible to assist the exporting efforts of UK industry. The scale of our help to exporters is in fact very substantial. We are up with the leaders internationally in our provision of export credit facilities; and the British Overseas Trade Board provides a very extensive range of export intelligence and promotion services. The scale of our effort seems to be competitive and in present circumstances there can be no question of increasing it.

However, I think your letter reflects a fairly widely held view that in the case of some key export orders we do not always deploy the available government aids as rapidly and flexibly as some of our competitors do. This doubt has arisen most commonly in relation to large capital projects, where several companies can be involved in a bid, lead times are long and, partly as a result, financial and sometimes political risks are high. Mainly as a result of anxieties of this sort, the Prime Minister has recently set up a new Cabinet of exports, EX, which she will chair, with the following terms of reference:-

> "To ensure that major cases involving government support for exports are dealt with quickly and efficiently, and to keep under review the arrangements for promoting the UK's international trade objectives."

/John Nott

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John Nott has also set up within the Department of Trade, providing a common service to the Department of Industry, a new division to co-ordinate government support to industry in pursuing export orders overseas and to advise on export policy questions generally.

The hope must be that these organisational changes will help to remedy any previous shortcomings in our aid to key export bids. EX, as its work progresses, will be able to judge the effectiveness of the new arrangements and of the existing array of services to exporters.

In view of these developments I hope you will agree that it is not necessary to invite an interdepartmental group of officials to review this field. (If this were to be done the Official Group on the Impact of Government on Industry would not be the appropriate body for the job because it is primarily concerned with the impact on industry of policies outside the trade and industry field, eg training, planning and health and safety.)

I am sending a copy of this letter to John Nott, Robert Armstrong and Robin Ibbs and (with a copy of yours) to the Prime Minister, Keith Joseph and Peter Carrington as members of EX.

GEOFFREY HOWE

sent/ 8/9

CH/EXCHEQUER	
REC.	-8 SEP 1980
ACTION	Mrs HEATON
COPIES TO	CST
	FST
	MST(C)
	MST(L)

Sir D. Wass

Mr Ryrie
Mr Middleton
Mr Dixon
Mr Unwin
Mr Battishill
Mr Burgner
Mr Monck
Mr Ridley

on Econ Pol: Strategy Pt 6

LORD PRESIDENT OF THE COUNCIL

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

5th September 1980

Dear Geoffrey,

Your letter of the 12th August addressed to Willie Whitelaw and copied to Cabinet colleagues about the Ministerial Steering Group on Government Strategy prompts me to write to you about something which has been worrying me for some time.

I see that one of the areas for future work (referred to in Annex A) is "Reducing burdens placed on industry by Government". These I see are essentially of a negative character likely to impede industry. But I have for long wondered whether we shouldn't be doing more to encourage industry in export markets. I wonder whether this might not be a suitable subject for consideration by the Official Group on Impact of Government on Industry. The knowledge that I accrued during my times in Paris and Brussels about the extent to which other Community Governments helped their industries in various ways to secure export orders, leads me to believe that we lag far behind in this respect. Perhaps one example would serve to show you what I have in mind. When I left Zimbabwe, French, German and Italian industries were hard at work seeking orders. I can assure you that if Zimbabwe had been an ex-French Colonial territory, French industry would have been given such a start and such advantages by the French Government as to thwart any competition.

Though I do not believe that we should be emulating our predecessors in seeking to prop up dying industrial concerns even in these hard times, I do wonder whether we could not and should not be thinking in terms of more help, albeit it of a "sub rosa" character to help our industries in some export markets.

I am sending a copy of this letter to John Nott, Robert Armstrong and Robin Ibbs.

Yours ever

Christopher

The Rt.Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer.

Prime Minister.

This paper by James Cleminson has come to me via Hector Laing. Hector was not sure whether you saw it while you were at Dumfries.

2. Cleminson

Trade.

CONFIDENTIAL.

EXPORT.

I have read the papers which have been produced by distinguished people such as Forsythe and Kaye on the economic implications of North Sea Oil revenues and the theories expressed by Professor Brittan. These economic doctrines would lead one to believe that the exports of manufacturing industry must go down by an amount not dissimilar to the external benefits of North Sea Oil. Nevertheless as a Chairman of an exporting manufacturing Company it is not my intention to go down without fighting.

Indication of the Problem.

Reckitt & Colman has built its world wide business based on exports from the U.K. It regards the U.K. as a tax haven, and it's policy is to export from the U.K. wherever possible. The Company won the Export Award 18 months ago and therefore can be regarded as a high profile exporter.

The figures which I shall be publishing next week on the half year results will only show a part of the risk which is currently facing us on exports because we include in our export profits the profits on our shipments to subsidiaries overseas, over which we have some control over prices. Nevertheless even these prices are under very considerable pressure and our companies overseas are looking for other sources for their supplies rather than the U.K.

The real measure of the problem lies in our exports to third parties and the figures for the first six months have only been rescued as a result of a resumption of shipments in 1980 to Nigeria, of which some 90% are pharmaceutical products with a relatively high profit margin. The following figures for other parts of the world demonstrate the problem.

Ctd ....

For the first six months:

Third party sales	to Europe	£ 3m	Loss £ 180,000
	to North America	£ 1½m	Profit £ 36,000
	to Asia	£ 4½m	Profit £ 5,000

The sales referred to are a mixture of household and pharmaceutical products plus, in the case of North America, mainly food products. Nevertheless, the ones most at risk are 'household' and therefore, I have had a report prepared on the effect on the Household Division in Hull of losing its export business. The areas concerned in the factory and office employ 1060 people and the export element of individual products vary from 20% to 85%. The loss of the export element would result in 323 redundancies, therefore in effect 1/3rd of the employment.

Facts.

In this same area wage and salary increases last year were at 16½% and current negotiations, with effect from August of this year, are at 10% - 11% and our 'trades' employees have already accepted at this level.

Efficiencies have been improved and approximately £ 3m will be spent this year in factory capital in these fields and £ 2m was spent last year.

Input costs during the last 12 months have been reasonably well contained with the exception of energy and local authority costs.

Despite, by U.K. standards, reasonable wage settlements and the improved efficiencies, the margin of contribution is insufficient with household type products to overcome the currency gap which has developed and we are typical of many U.K. industries in this respect.

Ctd ....

It will therefore be seen that we are left with two major problems putting us at a significant disadvantage versus our overseas competitors:

1. the cost of money, and
2. the level of sterling

both of which are indissolubly linked.

<u>Industry's Part.</u>

Industry is bringing inflation down by exercising wage restraint, increasing efficiencies and accepting very low margins. The July CBI situation report showed that 83% of exporters were hampered by pricing and that price increases for exports would be minimal over the next 4 months. The August survey showed a very similar situation for domestic products.

To obtain improved efficiencies companies need money, just as they need money to finance their stocks etc. It is my view that the high cost of money is no longer deflationary on industry.

1. Industry has to borrow money to finance working capital at a high cost and this becomes a cost.

2. Because of low margins industry has to choose between capital investment at high interest cost to improve efficiency - or drastic deferment with the inevitable consequences.

3. Salaried staff regard high interest rates as a cost just as much as industry does and therefore it does not achieve wage restraint.

4. Together with the effect of oil, high interest rates maintain our industrially unacceptable exchange rates.

If one takes Reckitt & Colman as a typical energetic exporter of low and medium technology products, then once these exports are lost they

Ctd .....

will never be regained nor will the jobs be replaced in another part of Reckitt & Colman. We can only, to a limited extent, and over a period of time switch to higher technology and therefore higher 'value added' products.

In order to stick it out in the meantime at 'no profit' we must see the light at the end of the tunnel. The next six months are vital in decision making by industry.

Action Required.

I can appreciate that if the Chancellor moves with all due caution these moves will have nil or very little effect on exchange rates and a considerable amount of British exporting industry will be destroyed. To avoid this happening I would suggest:

1. The Government must not only believe but be seen and heard to believe that the exchange rate is too high.

2. They should move on MLR earlier than expected and by more than expected - in other words take the risk of moving too soon rather than too late.

3. My personal estimate is that we would need a swing of at least 10% on exchange rates to be effective and interest rates will need to be at levels not dissimilar from those of our main overseas competitors for us to be export efficient.

Clearly Government cannot and dare not bring interest rates down so long as they have an excessive PSBR. In my view PSBR is a very much more important factor than any somewhat unreliable money supply figure. Money is not going out to individuals to provide inflationary buying, the money that is going to the private sector appears to be going to industry to keep it alive.

Even more dramatic is the fact that the bulk of the extra money in the system is going, not to improve British industry (because it cannot afford it) but to ever-increasingly finance Government and public authority spending.

3.9.80.

4 (o/r)

CONFIDENTIAL

Trade ?

Prime Minister Trade

A note on re-cycling schemes currently under discussion.

MAP 12/8.

MT

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

PRIME MINISTER

OPEC SURPLUSES

When we considered the Secretary of State for Trade's paper on trade policy (E(80)43) at E on 25 June, it was suggested that the less developed countries could buy more of our exports if their balance of payments problems were eased by encouraging greater flows from oil surplus countries. I promised to produce a note about the various ideas now current for recycling the OPEC surpluses.

2. Before considering them it is useful to distinguish between improving the recycling of oil surplus producers' money on non-concessional terms, and inducing them to put up more aid. The latter is important to the poorer developing countries (many of them in the Commonwealth) which do not have the same capacity for adjustment as those further along the road, but we cannot hope that this will be large enough to reduce substantially the recycling problem. The main problem is to devise new methods of channelling the surpluses which would be acceptable to the oil producers.

3. The ideas for recycling the OPEC surpluses are aimed at mitigating the immediate balance-of-payments problems of the LDC's, and at creating the conditions for recovery and renewed long term growth. They may not even maintain, still less increase in the long run, these countries' imports from us or from anyone else. But they are a first necessary step towards more trade in the future.

CONFIDENTIAL

.....

4. The attached note has been prepared by officials of the Treasury, in consultation with the FCO, the Bank of England and the Departments of Industry, Trade and Energy. It explains the background, and sets out the various ideas now circulating, in international organisations and here in London. Little of this is new, but colleagues may find it helpful to have this summary. No new decisions are needed at present. I do not think we need meet to discuss the paper. I shall assume, unless colleagues indicate otherwise, that this analysis is generally acceptable. Officials will proceed on the lines set out in this note, and will react to the various current proposals on the basis set out there. In addition, they will float the new UK proposals described at the end of the paper, whenever opportunity arises. I should however emphasise that none of these are particularly new or fundamental. They will supplement and not replace the other schemes being considered. Because they are designed to minimise the burden on the UK and other 'developed' economies, they will not be particularly welcome either to OPEC or to the LDCs. They are mainly intended to show that we are doing our bit in the general study of the problem.

5. I am sending copies of this minute to the other members of E Committee, and to Sir Robert Armstrong.

(G.H.)

11 August 1980

RECYCLING THE OPEC SURPLUSES

Background

The 1979-80 round of price increases has hit the LDCs badly. Some have suffered much more than others. But nearly all have balance of payments problems. The steady progress of the 60s and early 70s has slowed down and threatens to decelerate further. The LDCs as a group recovered fairly well from the 1973-74 oil shock. But the overall picture masks wide disparities of economic growth between countries within the group; some of them have borrowed extensively. This adds to the problems of facing another sharp increase in their oil import bill, (the working assumption by the World Bank, which may even turn out to be on the low side, is that oil prices will increase by 3% per annum in real terms in the 1980s), yet oil is essential to keep their economies going. Those who depend on imported food cannot cut their import bills too far. If they reduce their imports of manufactures, they hurt the industrialised countries and their own industrial development. Many of them lack the resources to increase their exports quickly and may face increasing protectionist pressures. The industrialised countries, to whom they look to for markets, are mostly in recession and are determined not to spend their way out again, for fear of inflation. The conditions which create the need for more help - large payments deficits, high inflation and weak activity following the rise in oil prices also make it difficult for Governments to maintain aid budgets. The LDCs which buy most from the industrialised countries are the fastest growing, relatively well-off ones like Brazil and Korea which rely heavily on private capital markets, whereas official aid goes mainly to the poorest LDCs. So the amount of direct additional help industrialised governments can give, either by way of trade or aid is likely to be limited.

2. In any case, aid, although important for the poorer countries is historically a small part of the total flow of funds to the LDCs as the chart at Annex A shows. The greatest part comes from their export earnings ($244.4 bn in 1979). Private direct and portfolio investment, bank loans and export credits provide the next slice ($43.17 bn). In 1979, only $22.27 bn came in the form of bilateral and multilateral

aid from DAC members. Oil surplus countries provided another $4.7b. Private flows will continue at a high level. But investment is limited to some extent by lack of profitable outlets in the LDCs. The banks are not short of funds, since they take in surplus oil money on a large and increasing scale. But they are becoming reluctant to increase their exposure in some of the riskier LDC markets. The international Task Force on Non-Concessional Flows (reporting to the joint Development Committee of the IMF and IBRD) believes that the banking system will be able to carry the main burden of recycling through the rest of 1980, but the process could become increasingly difficult thereafter.

3. This is where the surplus oil producers come in. Their money is needed for balance of payments, for direct investment and aid to the poorer LDCs. So far a great deal of their surpluses has been placed short term, notably in bank deposits. The problem is how to persuade them to lend for longer periods either directly or through the international financial institutions and to accept more of the sovereign risk on commercial lending. The industrialised countries will take every opportunity of pressing this case, particularly in the forthcoming Global Negotiations. However, this will not be easy since the surplus oil producers argue - and believe - that they are already accepting their fair share of risk by converting a scarce resource - oil - into financial assets which tend to decline in value.

4. The rest of this paper is about various current schemes for facilitating these flows. Some are already on the agenda of the IMF and the IBRD. Some are new proposals, deriving from the Brandt and other recent reports. Many of them involve a risk to the industrialised countries which would be required to underwrite LDC borrowing and relieve surplus oil producer lenders of costs or risks which, in principle, we believe they should bear themselves. But some bargain may be needed to persuade surplus oil producers to lend or to soften their terms of lending. The present UK attitude to each of these schemes is described. The note ends with three possible new proposals (none especially exciting) which the UK might put forward as a contribution to the debate; all are designed to tap OPEC funds in various ways without increasing the burden on the industrialised countries.

A. Work in hand

(i) IMF

5. At the meeting of the Interim Committee in April, it was agreed that the IMF should "play a growing role in the adjustment and financing of these (balance of payments) imbalances". A two-pronged proposal has been under discussion:-

(a) that the Fund should be prepared to lend larger amounts, over a longer period;

(b) that the Fund should augment its resources, in addition to the Seventh Quota Review, by borrowing from surplus countries.

6. The UK has argued that while more time for adjustment to external deficits should be allowed, Fund resources will have to remain subject to some appropriate conditionality and be provided in conjunction with programmes aimed at restoring a viable balance of payments position. The fact that the deficit may be external in origin, eg the higher oil prices, does not diminish the need for corrective measures, if the external factor is expected to persist. The Fund reviewed its conditionality in 1979 and issued some more flexible guidelines. These would still hold good though there will be relaxation in the sense of offering a longer time horizon for adjustment in some cases. The unconditional resources available from the Fund should not at present be changed save that they will expand pari passu with the 50% increase in all quotas now in process of enactment. However, there may be some scope in the future for re-examining the balance between Fund resources with high conditionality and those with relatively less (eg first credit tranche, CFF etc).

7. On (a) above, the Fund has proposed allowing countries to borrow up to 600% of quota (the maximum hitherto has been about 450%) and allowing countries to draw this in three annual tranches. In exceptional circumstances even this limit might be exceeded. Though the details remain to be settled, the UK and a number of other countries have generally welcomed the proposal.

8. On (b), the Fund Staff think the existing resources available to the Fund, which consist of the currency supplied when countries pay in their quotas, and the Supplementary Financing Facility (SFF), which is a line of credit provided by surplus countries (industrial and OPEC members) will suffice until early 1981 by which time the SFF will be fully committed. However, a further $7-8 billion might be required in 1981-83 given the enlarged access to quotas, and discussions with potential lenders within OPEC have begun. Until recently, surplus oil producers have been interested in lending to the Fund, but not on concessional terms. (There is now a political difficulty - see paragraph 14 below.)

9. Other difficulties have arisen in these discussions. In the past, schemes whereby countries provided the Fund with additional resources, eg the General Arrangements to Borrow (GAB) within and for the Group of 10 industrial countries and the SFF, have taken the form of lines of credit. The Fund has drawn on these resources as required and when repayments have been made the money has passed straight back to the lenders. This is convenient to the borrowers but leaves the lenders with a commitment to provide or take money at short notice.

10. In discussions with the Fund Staff, the Saudi Monetary Authority (SAMA) have argued that they should provide the Fund with money and receive repayments on a fixed schedule. If the borrower continues to enjoy flexibility, the Fund will experience periods when it has either a surplus or deficit of currency. If for example the Saudis had deposited dollars before they were on-lent, the countries with a net creditor position (the UK is likely to become a net creditor fairly soon) might be asked to hold more dollars in their reserves which would reduce their SDR-denominated claims on the Fund. In this way they would incur the exchange risks and the inconvenience of managing short term funds which the OPEC countries are seeking to avoid.

11. We are urging the Fund Staff to look for ways round this problem which avoid giving in to this demand. One group of Fund creditors should not be asked to help out another group. This would be a major departure from the Fund's practice of even-handedness among all members.

The exchange risk and the problem of short term fund management should remain the responsibility of the oil surplus countries lending to the Fund. In the case of the UK there would almost certainly be legislative and accounting obstacles to manipulating the exchange equalisation account in this way, even if the resultant change in the composition of our reserves were not necessarily very costly.

12. There are possible ways round the problem. The Fund could invest in SDRs to match its SDR liability to OPEC countries; it could bear the risk itself but minimising it by investing in a spread of currencies (though any risk to the Fund's financial position could have implications for all members, perhaps even an increase in its charges at some stage); it could try to negotiate a shorter period of notice for drawing on the oil surplus countries or restrict borrowers flexibility in drawing or repaying funds. The ideal, however, would be to get the oil surplus countries to accept the line of credit arrangements.

13. At a technical level, while the prospects for borrowing large sums directly from oil surplus countries remain good, the latter will try to drive a hard bargain. There is little prospect of the money being concessional. The oil producers will try to shift as much of the exchange risk and portfolio management onto the Fund or the other creditors as it can. There are signs that some oil surplus countries will be prepared to contribute to subsidies of the Fund's more expensive facilities but they may insist on a contribution from the industrialised countries.

14. However, at the political level a threatening cloud has appeared over this issue. As a result of opposition by the developed countries to the admission of the PLO as observers to the Bank/Fund Annual Meeting, the Saudis and others have said that they are not "at present" willing to consider lending to the Fund and have taken similar action in the Bank. This will be a troublesome issue, as the the US are equally adamant that admission of the PLO would put at risk Congressional approval of the IDA replenishment. Meanwhile the Fund Staff are looking into the prospects for borrowing from the international capital markets, which would tap OPEC surpluses, at least in part, by a more indirect route.

15. Although not originally conceived as a recycling measure, the proposal, espoused by Brandt, to alter the allocation of SDRs in favour of LDCs by skewing the allocation of SDRs in favour of LDCs is being re-examined by the IMF. Though it has a number of attractions, in particular it could provide LDCs with non-borrowed reserves and reduce their resources to credit markets, and in one form would have no public expenditure cost, it also raises a number of difficulties. Would the link detract from the quality of the SDR as a reserve asset? Would such allocations be inflationary? Officials are still considering the issues.

(ii) World Bank

16. The World Bank group of institutions provides three main kinds of development finance. The IBRD itself lends on long but non-concessionary terms ($8.6 bn this FY); the International Development Association (IDA) on very soft terms ($3.6 bn this FY if its last replenishment comes into effect); and the International Finance Corporation (IFC) invests in equities in partnership with private capital ($571m this FY). The IBRD and IDA lend chiefly for projects, but have also done a relatively small amount of more general "programme" lending. This is now to be boosted by a system of "structural adjustment loans", designed to encourage LDCs in programmes of investment which would adjust their economies in the medium term to high oil prices. We support this scheme so long as it does not encroach on IMF operations, and several loans have already been made. But the money has to come out of existing lending programmes - it is not additional. So the question is whether it could be matched with extra OPEC money under some form of co-financing. The main current proposals for augmenting World Bank flows are:-

(a) The General Capital Increase (GCI)

All members are committed in principle to a doubling (an increase of $40 billion) of the Bank's capital. The paid-in portion of subscriptions will be called up by instalments over five years starting in September 1981. OPEC members can subscribe up to about $3.4 bn of which about $260m will be paid-in. Some increase in a few OPEC countries' shareholdings through selective capital measures is hoped for eventually, but the scope for this in the absence of IMF quota increases is limited. The necessary legislation to enable the US to participate in the GCI has yet to be introduced in Congress, where the sixth replenishment of IDA (see sub-paragraph f below) is running into more opposition than usual from the anti-aid lobby. The UK has consistently supported the GCI, but no decision has yet been made on the size and timing of the UK subscription.

(b) Increasing the gearing ratio

The Bank's total lending is limited to the total of its subscribed capital and its reserves. This cautious 1:1 ratio is laid down in its Articles. The Bank has long been firmly established and it may now be possible to increase this ratio. The Brandt report strongly recommends this and such a change would allow the Bank to increase its direct borrowing from all sources including the oil surplus producers. In addition to certain political difficulties inherent in amending the Articles, such a change would require careful handling if it were not to imperil the Bank's triple A rating in New York markets, and drive up the cost of its borrowing. The GCI will greatly increase the annual value of IBRD borrowing and it is possible that a dilution of the ratio which constitutes a 100% guarantee to lenders could prejudice its ability to fund itself in the future. The UK might wish to support this proposal but would want a reasonable assurance the change would not damage the Bank's standing. We are not anxious to press forward immediately in case the US Congress sees it as a soft option to the GCI, which in our view should come first. The IBRD management appear to share this view. It will consequently be some time (perhaps 2 years or more) before a change in the gearing ratio could be seriously considered.

(c) Increase in callable capital

Member governments' subscriptions which form the Bank's capital base, are in two parts, a paid-in portion and the remainder "on call". At the Bank's inauguration the paid-in portion was 20%. In 1960 the Bank's subscribed capital was doubled, but the portion due to be paid-in has never been called. Thus an alternative to a further GCI with a paid-in element or to a change in the gearing ratio would be a general increase in callable capital. This would continue 100% backing for the Bank's obligations, while adding to governments' contingent liabilities. Provided the Bank continued to follow prudent policies, the likelihood of the callable capital being called would remain remote. If the present GCI collapsed because of Congressional or other difficulties, this might be a focus for discussion.

(d) New Energy Affiliate

The IBRD were asked to examine this possibility by the Venice communique, and will produce proposals in the autumn. The idea of a separate institution has been promoted both by the US and by France (the latter, however, wants one outside the World Bank): but while we have supported this study, we should be hard put to it to find any subscription to a new body from the Aid Programme. Much depends on whether any new affiliate were to be limited by the Bank's existing lending/capital ratio. If it were, any possible additionality would be limited to any co-financing it was able to attract. The Bank believes there is no shortage of sound energy projects, even outside the politically-safe markets where the international oil companies could fund the more attractive projects without its participation.

(e) Co-financing

This is a device by which the IBRD shares part of the cost of a project, either with official aid agencies or with private banking sources. The volume of such co-financing has diminished in the last couple of years, but the IBRD staff is now anxious to increase it again. The UK supports such moves, but we have a modification and extension of our own to propose (see paragraph Ci below).

(f) IDA6

The sixth replenishment of the International Development Association was due to be ratified by 30 June last but as in past replenishments it has run into difficulties in the US Congress which has not yet authorised US participation. Without the US the replenishment cannot take place. IBRD management is therefore seeking a "bridging operation" by which the major subscribers, including it is hoped, some OPEC countries, would provide, in advance, the first tranche of their contributions to IDA6, until the US is in a position to pay up. The amount of OPEC money involved is small (although some OPEC members will contribute in percentage terms more than their current share in the Bank's capital). If IDA6 fell through and individual members did not increase other aid flows by the amount of their agreed subscriptions to IDA, there would be a further shortfall over the next ten years of $12 billion in the flow of funds to LDCs. The UK is presently committed to supporting IDA6, but possible UK participation in a bridging operation remains to be decided.

(g) At the behest of the Task Force on Non-Concessional Flows, the World Bank Staff are studying a proposal for a new bank affiliate, capitalised out of earnings, which could tap the euro-markets rather like a commercial bank. This idea is at a very preliminary stage, but by avoiding some of the difficulties of the traditional gearing ratio might be able to mobilise additional capital at virtually no cost to IBRD members. If the staff study shows the idea to be technically feasible, it could be promising.

B. Recent new proposals

17. A great deal of ingenuity is being applied to devising schemes which would increase the flow of non-concessional funds from OPEC to the LDCs and ease the strain on the international banks and capital markets. Subsequent paragraphs review some of these proposals, setting out the pros and cons of each and suggesting the attitude UK

representatives should take in the various fora in which they are raised.

(a) Arndt

18. The Report by a Commonwealth Group of Experts under the Chairmanship of Professor Arndt covers much the same ground as the Brandt Commission. It has proposed adapting existing mechanisms for reserve diversification by surplus countries to achieve recycling. Briefly the scheme would work as follows. SAMA would deposit dollars with the Bundesbank, Bank of Japan (or even the Bank of England) and receive DM, yen, sterling securities, these transactions being conducted off market. The Bundesbank etc would deposit the dollars with the US Treasury in exchange for Treasury notes; the US Treasury would lend the dollars to the IMF in exchange for SDR denominated IMF liabilities and the IMF would lend the dollars to LDCs. The advantage claimed for the scheme is that it would build on existing mechanisms - the Saudis have already acquired DM and yen securities and the German and Japanese central banks already hold most of their dollars with the US Treasury. The innovation is the movement of dollars from the US to the IMF. The chart at Annex B summarises the flows.

19. The scheme has several drawbacks, apart from its evident complexity. First it requires Germany, for example, to issue DM liabilities to the Saudis not just to finance a current account deficit, as they are doing at present, but to acquire more dollars in its reserves. It is doubtful whether Germany would be so keen to allow the DM to develop as a reserve currency if it did not have a deficit to finance. Secondly the proposal whereby the Bundesbank would, to compensate it for the exchange risk, pay the Saudis slightly less than market rate of interest and receive from the US a rate slightly higher than the market rate, would be difficult to negotiate. Thirdly, the fact that the dollars taken initially from SAMA are ultimately reissued to LDCs could put downward pressure on the dollar.

20. Thus the scheme looks complex, difficult to negotiate and possibly technically unsound. Unless it could attract larger quantities of funds, it would seem to offer little advantage over putting oil surplus

money directly into the IMF. However some form of indirect recycling mechanism may need to be considered if oil surplus countries continue to not cooperate with the IFIs because of policy towards the PLO (see paragraph 14 above).

(b) Guarantees

21. The French representative on the Task Force on non-concessional flows has advocated more extensive use of guarantees. He has listed a number of variants. In one there could be an international loan insurance fund which would guarantee loans to developing countries. Banks could pay an insurance premium, as to ECGD, but governments would bear any residual loss. In another variant, put forward by Mexico, a fund could be established, which would raise money under its own name on international capital markets or from governments and lend to developing countries to buy capital goods. Governments who felt unable to subscribe to bonds issued by the fund might offer to guarantee loans.

22. The French have suggested their own variant involving partial guarantees (35-40 per cent) for credits to countries on the threshold of credit-worthiness and of access to private capital markets. The scheme would not apply to the poorest countries and those already enjoying access. The guarantees would apply to market borrowing bond issues and even direct OPEC loans but would exclude export credits. The burden would be shared by the industrialised countries, oil producers and perhaps even the borrowing governments. The first two groups would be guarantors pledging callable capital and the latter would pay a fee equal to the difference between the actual cost of the guaranteed loan and the notional cost of an unguaranteed loan.

23. The Arndt Report has suggested that its recycling scheme could be put on to a longer term footing by the establishment of a system of government guarantees. Using such guarantees, an institution would be able to raise funds for on-lending to LDCs. These funds could include the proceeds of the off market diversification arrangements described above (though if there are guarantees OPEC would probably be prepared to lend directly to the institution).

24. The World Bank and the Regional Banks have the power to issue guarantees but as they count against their capital in full, guarantees simply displace direct lending and therefore virtually none have been issued. The IMF has no power to offer guarantees under its Articles.

25. Part or full guarantees have the possible attraction of facilitating loans to LDCs now on the margin of, and relatively unknown to, the markets with no cost to public expenditure but there are several objections. Such a system might reduce the pressure on commercial lenders to exercise their judgement and relieve them of risks they should properly carry. It could undermine the independent credit-worthiness of LDCs still able to borrow commercially. It would not of itself lead to any certainty that the money borrowed would be usefully employed, (a necessary precondition for any charge on the UK aid programme), should the premia charged for what is basically a secondary banking service not be enough. Such lending might best be organised through a separate institution possibly linked to the World Bank, charging premia and scrutinising the uses to which funds were applied. If no new institution were set up, the Bank's Articles could be re-examined to make guarantees more attractive by altering present constraints, either separately from or in conjunction with a general change in the gearing ratio.

C. Possible UK Initiatives

26. (i) An OPEC/IBRD Joint Lending Programme. This proposal builds on the existing arrangements for co-financing (paragraph 16e above). The idea is to develop a formal 'umbrella' scheme, under which OPEC lenders, either individually or through some new collective institution, would provide perhaps half the capital for an IBRD loan directly at normal IBRD interest rates, leaving IBRD from its ordinary resources to put up the other half. No guarantees would be given to the OPEC lenders. The two matching loans would be linked by cross-default clauses, thus giving OPEC lenders the protection of ODC reluctance to default on IBRD loans. The lenders would also get the assurance of IBRD project appraisal, which many of them are not yet equipped to carry out. (The lenders

might however want, and could reasonably be given, a share in the process of selecting projects.) There are two main problems. The scheme would be more complex for IBRD to administer. More seriously, oil surplus countries normally prefer medium to short maturities, while IBRD lends for fifteen to twenty years. A formal scheme of this kind, with widely-known terms and standard conditions, well-publicised and with a degree of political commitment on both sides, might attract more funds than the present series of ad-hoc arrangements.

(ii) Factoring of IBRD loans. Oil surplus countries' preference for shorter maturities could be met, without disturbing IBRD's wish to lend long, by arranging to sell to them IBRD's rights under existing loans a few years before they fall due for repayment. This would release considerable funds for immediate new loans. Something of this kind has already been done in the past on a small scale and is being further studied by the Task Force on Non-Concessional Flows. It might be necessary for the Bank to underwrite the borrower's liabilities in some way, or to offer a discount, to make these rights sufficiently attractive. The main problem is however the effect on IBRD's loan position. An increase in immediate liquidity would be at the expense of greatly lengthening the average maturity of its loans since new lending involves grace periods. The likely effect of this proposal on the Bank's standing in the capital markets would have to be carefully assessed.

(iii) Use of Regional Development Banks (RDB's). There are four such autonomous banks and the UK is a non-regional member of three of them. The fourth (the African Development Bank) is currently restricted to regional members but arrangements are in hand to allow non-regionals who already contribute to the African Development Fund (which includes the UK) to join. Membership provides the eligibility for UK exporters to tender for projects funded by the banks. Except for OPEC members within the particular region served by each bank, OPEC countries broadly do not support the RDB's. UK action to urge OPEC membership of the Banks or to encourage increased subscriptions is somewhat circumscribed, but we can discuss with other major aid donors, and with the managements of the Banks what might be done to bring about increased OPEC participation, which would generate additional funds from markets in excess of the sums actually paid-in by OPEC countries.

H M Treasury
7 August 1980

CONFIDENTIAL

Prime Minister
Shall we try and fit in a meeting as suggested at X?
TL 31/7

PRIME MINISTER

Yes not

EX COMMITTEE

I welcome very much your initiative in setting up this Committee, which reflects the priority that we must give to promoting trade and avoiding Departmental log-jams.

There are, of course, a considerable number of major projects being pursued by our companies, on which Departments are in continuous touch about the best form and timing of support. Since the Committee has been established no particular cases have arisen which need to be brought to it before the Summer Recess. It is, however, in the nature of these cases that issues can arise unpredictably and at short notice, so that I cannot entirely exclude cases coming forward over the next few weeks.

Unless, however, one of these transpires, I would suggest that a formal meeting of the Committee could be left until September. Agreed

On the other hand it would be particularly useful if you could spare the time for a short briefing meeting to which I could bring my new Deputy Secretary and Under Secretary responsible for this area of activity, to clarify how we could best prepare material for this Committee. Agreed

X

I am copying this minute to Peter Carrington, Geoffrey Howe, Keith Joseph and Sir Robert Armstrong.

JN

JN

Department of Trade
1 Victoria Street
London, SW1H OET

31 July 1980

CONFIDENTIAL

Trade (2)

PM

Prime Minister

FCS/80/114

MB

SECRETARY OF STATE FOR INDUSTRY

Britain's International Trade Policies : Zimbabwe

1. In your letter of 23 June on Britain's international trade policies you said that our policy on aid to Zimbabwe illustrated the way in which we are losing to our competitors who are utilising their aid with a sharper industrial focus; and you referred to the Wankie II power project in Zimbabwe as an example.

2. I have seen no evidence that other donors, whose offers are in any case much too small for the purpose, are using their aid in the way you suggest. What they might be doing with commercial credit is another matter, but in general such terms should be capable of being matched by ECGD.

3. The basic problem over Wankie II is that UK bids are substantially higher than those of the Japanese. So far as we are aware none of the bids for this project are supported by aid money: as regards the Japanese this is manifestly unnecessary, their price being 30% lower than the main British contenders. Our recent aid mission in Zimbabwe offered an aid inducement designed to secure the turbine contract but this was rejected.

4. Cecil Parkinson said in the report that he wrote following his visit to Salisbury that it was clear that Zimbabwe was opposed in principle to tied aid, and that although there should be little difficulty in respect of insistence on the provision of British equipment for rural development projects there would seem to be no chance of using our aid to soften terms for

/important

important commercial projects as to do so would simply mean that the Zimbabweans would turn to those offering more competitive commercial terms "leaving aid to be used for more demonstrably social purposes". Our recent Aid Mission to Zimbabwe agreed, on an ad referendum basis, that £54.4 million of our £75 million should be set aside for bilateral capital aid. Under the proposed distribution of this sum, £22.9 million would be for items to be procured from the UK. There would in particular be allocations for the supply of a wide variety of vehicles which would be extremely promising for future non-aid financed orders.

5. Probably the greatest contribution we can make with our aid is in terms of encouraging stability and a climate in Zimbabwe in which British trade can flourish.

6. I am sending copies of this minute to the recipients of yours.

C

(CARRINGTON)

Foreign and Commonwealth Office

10 July 1980

CONFIDENTIAL

Trade.

NS

Object.

Copied to
Cabinet: Committee
structure & membership:
May 1979.

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

Prime Minister's Committee on Exports

I have shown your minute A02549 of 7 July to the Prime Minister.

She agrees with your proposals for the composition and terms of reference of the new Ministerial Committee on Exports. She would also be grateful if, when the Group is set up, you would arrange for the Secretary of State for Trade to submit a paper for the first meeting to consider.

C. A. WHITMORE

8 July 1980

CONFIDENTIAL

HU

Subject:
copied to Cabinet: Committee structure & membership: May 1979.

1.

Prime Minister.

CONFIDENTIAL

Agree:
a. the terms of reference and membership of the Committee;

b. that the SofS should produce a first paper?

Ref. A02549

MR. WHITMORE

Prime Minister's Committee on Exports

When E discussed on 25th June the memorandum by the Secretary of State for Trade on Britain's International Trade Policies (E(80) 43) the Prime Minister said that she would set up a small Ministerial Group under her chairmanship, with representatives of the Departments most closely concerned, to consider current export problems and also whether any general lessons might be drawn from experience in handling particular cases.

2. I attach a draft note showing possible membership and terms of reference of this group. I suggest that, once this group is set up, the Secretary of State for Trade should be invited to submit a paper putting forward some particular cases for consideration at the first meeting.

RTA

(Robert Armstrong)

Agreed MT.

7th July, 1980

CONFIDENTIAL

MINISTERIAL COMMITTEE ON EXPORTS

COMPOSITION:

Prime Minister

Secretary of State for Foreign and Commonwealth Affairs

Chancellor of the Exchequer

Secretary of State for Industry

Secretary of State for Trade

TERMS OF REFERENCE:

To ensure that major cases involving Government support of exports are dealt with quickly and efficiently and to keep under review the arrangements for promoting the United Kingdom's international trade objectives.

SECRETARIAT:

Sir Robert Armstrong

Mr P Le Cheminant

Mr D J L Moore

cc Mr. Duguid

Trade

FCS/80/109

SECRETARY OF STATE FOR INDUSTRY

Britain's International Trade Policy

1. Thank you for your letter of 23 June, commenting on my minute of 10 June. I understand that Ian Gilmour covered the points you raised in discussion in E Committee on 25 June but I thought I would write for the record.

2. My comment about not increasing the burden on the aid programme was not in any way intended to imply a drawing back from the policy announced in Parliament last February, to which I remain entirely committed.

3. The amount by which the British bid for the Wankie II power station exceeded the bids by our competitors was too great to bridge from the aid programme; the government of Zimbabwe themselves recognised that this would have swallowed up too large a portion of the agreed aid allocation.

4. Most of our external policies involve an intricate web of considerations, economic as well as political. I doubt whether it would be profitable to try to establish which should be dominant. Our task is to strike the right balance of British interests. I certainly agree on the need not to disrupt long-term contracts. That trade should not be used as a political weapon is one of the fundamental principles of this Government and one from which we should depart only in exceptional circumstances.

5. I accept that there are redeeming features in our export performance, but we would be deluding ourselves if we claimed that, taken overall, our performance is adequate. It falls far behind that of Germany or Japan, which is the sort of competition we have to match if we are to keep in business in the present, very difficult international economic circumstances. Confidence

/is

is, of course, crucial, but I am sure that you will agree that it is essential that we should take a realistic view in our confidential discussions. This does not however imply that we should give public currency to our views.

6. I am copying this minute to the Prime Minister, Members of E Committee and to Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

2 July 1980

Prime Minister

PRIME MINISTER

Cecil Parkinson recently attended a meeting of the British Overseas Trade Board at which there was a discussion on the effect of the exchange rate, domestic inflation and interest rates on price competitiveness and exports. Subsequently the BOTB Chairman sent the Minister the attached written note of the main points.

The Board includes a good cross section of leading industrialists, covering a wide range of business interests. Their reservations and comments were made against a background of support for the Government but they were concerned for the future of their own businesses. It was noticeable that the two "city" representatives, Sir Francis Sandilands (Commercial Union and Chairman of the Committee on Invisible Exports) and Guy Huntrods of Lloyds Bank International were a good deal less critical of our financial policies that were those representing the manufacturing sector.

Needless to say Cecil Parkinson defended our policies vigorously. His arguments were noted and he elicited a general - if grudging - support of those policies.

At the request of Lord Limerick, the Chairman of the BOTB, I am bringing their thoughts to your attention since this Board exists to advise the Government on our trade policies.

I am sending a copy of this minute to E Committee colleagues and Sir Robert Armstrong.

J N

Department of Trade
1 Victoria Street
London, SW1H OET

30 June 1980

MINISTER FOR TRADE

THE EFFECT OF THE EXCHANGE RATE, DOMESTIC INFLATION AND INTEREST RATES ON PRICE COMPETITIVENESS

The discussion at Tuesday's well-attended BOTB meeting seemed to me to be of such importance and to reveal such unanimity that I should let you have a short note right away of the main points which emerged.

2 First, Board members pointed out the improved May trade figures did not reflect the very serious underlying position facing exporters of manufactured goods. They felt that this problem had significantly deteriorated over the past few weeks and would show up in the trade figures later this year and early next year. The combination of high interest rates, high domestic inflation, and a strong currency, has undermined the price competitiveness of our exports and many exporters have managed to maintain export volume and market shares only by absorbing increased costs to the extent that much current export business is no longer profitable - and some of it is loss-making. This means that too many companies are simply not generating sufficient cash-flow to enable them to maintain current levels of activity, still less to keep up r and d and product development programmes. We must, therefore, expect to see a decline in export volumes in the near future, with more serious long term implications.

3 Second, Board members are now finding that the continuing and vital task of reducing costs at the required speed can be achieved only by negative means, such as plant closures and redundancies. Further steps along the positive route of improved working practices and greater investment as a means of raising productivity could not take effect quickly enough, or over a large enough area, to deal with the scale of the present problem and the speed at which the situation is deteriorating. Present interest rates are so high as to inhibit future investment so that firms are not re-equipping for the market conditions in the next decade. In the shorter term, Board members are worried that the volume of redundancies which manufacturers are being forced to plan will have serious social and political implications, perhaps beyond what any Government can tolerate.

4 Third, it was recognised that wage elements are a key to the inflationary spiral. Board members therefore felt let down by excessive wage settlements in many nationalised industries, often unrelated to productivity, which undermined the efforts of private employers to achieve real wage settlements

/ below

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below the rate of inflation. The public sector - particularly the nationalised industries - had to be seen to be subject to the same harsh medicine as the private sector.

5 Fourth, there was general belief that the exchange rate is intimately linked to interest rates, so that needed relief from lowering the latter would very quickly bring a more competitive exchange rate. It was felt likely that a substantial and increasing element of bank lending is now financing unsaleable stocks and trading losses.

6 However, the position was not entirely one of gloom. The assessment of the representatives of the invisible sector was that the combination of a strong exchange rate, high inflation and high interest rates was not having so bad an effect on our total invisible exports as it was on visible exports. Even so, there are pockets within the invisible sector where this combination is similarly adverse, for example, tourism, and on the ability of our consultants to win overseas business.

7 I realise that my Board members were outspoken on Tuesday, but I think this only emphasised that they were speaking with sincerity about pressing problems. They are men of standing and experience in their different fields and with good contacts across industry and commerce. I would sum up their position in this way. They feel themselves representative of business and commercial thinking which continues to support the Government's broad approach to grappling with deep-seated problems, notably bringing down inflation in the short term and changing attitudes in the medium term. Their concern to see the Government's policy succeed was apparent.

8 Board members do however foresee that to continue with interest rates at or approaching current levels will badly damage substantial sectors of British manufacturing industry, and consequently they believe that this particular policy is now doing more harm than good. Against a bleak outlook for world trade, much of the resultant job loss could well be permanent. The discussion brought out the urgent hope that an opportunity for easing interest rates will shortly arise with the anticipated turndown in the published rate of inflation. Such action could have an important psychological impact in maintaining the support and confidence of businessmen as well as providing a modest easing of the formidable problems they face.

Jm

for LIMERICK
19 June 1980

CONFIDENTIAL

Qa 05061

To: MR LANKESTER

From: J R IBBS

International Trade Policies and Non-Tariff Barriers

1. I have not put in a CPRS paper for the meeting of E Committee tomorrow because I broadly agree with the proposals put forward in the papers by the Secretary of State for Trade and the Chancellor of the Exchequer. I am, however, concerned about a point of emphasis that can be applied to the arguments in both papers and you may like to draw the Prime Minister's attention to this.

2. I accept that it is in the United Kingdom's long term interest to encourage an open trading system and to resist pressures for widespread import controls. In principle it is also better to seek removal of other countries' non-tariff barriers in preference to erecting extensive barriers of our own. On the other hand, as the Secretary of State for Trade points out, a blind free trade policy would not be appropriate and I support the pragmatic approach he is following which includes maintaining the import controls we have, continuing with constructive procurement policies at home, and taking action against unfair practices abroad. The Chancellor likewise recommends a case-by-case approach with some intensification of the use of non-tariff barriers.

3. The essence of these pragmatic approaches is that in appropriate instances some assistance should be given to industry but in ways that should avoid substantial retaliation and which do not cut across the main strands of policy.

4. The point of emphasis that concerns me is that in striking the right balance in individual cases, there may be a bias against giving assistance because of a belief that this may reduce the vigour with which increased efficiency is pursued. I believe that under present conditions this fear is largely groundless. The liquidity pressures and the high exchange rate which result from present economic policies mean that there is generally a great deal of pressure on companies to increase efficiency. Indeed, additional

competitive pressures such as those which result from questionable practices by competitor countries may merely hasten the decline of a business that is worth keeping rather than stimulate its improvement.

5. It must be an objective of present economic policies to improve efficiency and induce a sense of economic realism whilst avoiding unnecessary damage to the industrial base - that there will be some damage is unavoidable. I therefore believe that the positive proposals in the papers by the Secretary of State for Trade and the Chancellor should be pursued and I would urge that, at least in the short term, Ministers should keep an open mind on further possibilities of modest protection to avoid serious damage to sectors worth preserving. This probably means a willingness to use selectively and vigorously the techniques already suggested in the two papers rather than seeking additional approaches. However, anything that can be done to speed up rates of response, for example that of the EC Commission to allegations of dumping, would be useful.

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

JRI

24 June 1980

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

Secretary of State for Industry

23 June 1980

The Rt Hon Lord Carrington PC KCMC
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

TL has seen.

PS/Ministers
PS/Secretary
MR Manzie
MR Benjamin
MR Gent (on file)

Dear Peter

BRITAIN'S INTERNATIONAL TRADE POLICIES

I would like to make a few points on your minute of 10 June commenting on John Nott's paper which we will be discussing in E Committee next week.

I am concerned that your comments about not doing more through the aid programme imply some drawing back from the policy, clearly stated last February in debates in both Houses, that we believed it right to give greater weight in the allocation of aid to industrial and commercial considerations alongside our developmental objectives. I trust this is not so.

My concern is illustrated by our policy on aid to Zimbabwe; major projects there, such as Wanke II, are being lost to our competitors who are using their aid to Zimbabwe with a sharp industrial focus. We too should effectively relate aid to particular projects or types of project.

While I can accept that there may be exceptional circumstances when political considerations must be dominant in our external policies, I would expect these to be few and only justified by very serious considerations indeed. Major contracts almost invariably last for long periods of time and during their course political relations with the country concerned may change. Only in exceptional circumstances should we allow these long term contracts, which mean profits, good employment and stronger industries, to be subject to the ebbs and flows of diplomacy. We have in the past lost major contracts because, unlike other countries, we have put political considerations above our economic interests.

Japan provides an effective example of the success to be gained by tailoring its interests and policies to the needs of trade.

/We ...

We have long maintained that trade should not be used as a political weapon; we breached that principle in respect of the Iranian hostages but I would hope we could agree that this was an exception we will not take as a precedent for further action.

I was particularly concerned that you state in paragraph 8 of your note that our export performance is "bad". It may be that we could export more, and we should certainly not be complacent about undoubted weaknesses in the manufacturing sector. But the plain fact is that we do export large amounts of manufactured goods and we do so because those goods can retain a share of the international market. Moreover, we export a greater percentage of our Gross National Product than any of our major competitors. Given the many difficulties faced by our industries this performance is no mean achievement and certainly not one to be undervalued.

In both international politics and trade, confidence is of crucial importance. I do not believe we will help ourselves or our successful exporters by giving currency to the picture of British industry drawn in your note.

I am sending a copy of this minute to the Prime Minister, members of E Committee and to Sir Robert Armstrong.

Ever,
Keith

Trade

CONFIDENTIAL

Not seen yet (For E later in the month)

R 10/6

FCS/80/100

SECRETARY OF STATE FOR TRADE

Britain's International Trade Policies

1. I have read with interest your memorandum of 16 May.

2. I agree with your central conclusion: that we should continue to favour and work for an open trading system. But I have comments on other points you make.

3. First, the national interest: I believe that maintaining our membership (and observing the obligations) of the GATT and the European Community are themselves elements in the national interest and cannot be counterposed to it.

4. Secondly, I sympathise with your argument that we must act like our competitors in supporting our industries. But I do not accept the implication that even more should be done through the aid programme. Moreover, it is simply not true that the French, the Germans and the Japanese have no aid programme as such. Their aid programmes are in fact much larger than ours (and growing while ours shrinks) and mixed credits take up only a small proportion of them. On mixed credit, I do not think that we should change the policy which was agreed in January, following exhaustive discussion in the Aid Policy Review.

5. Thirdly, I do not accept that, in the cases to which you refer, our trading interests have suffered more than those of our competitors as a result of our foreign policy. Throughout the crisis in Iran we have been most careful to keep in step with our Community partners. The Germans and the Italians will be hurt more by sanctions than we shall. I hope you would agree that we must avoid having to choose between South Africa and Black Africa and that this implies that we must strike a careful balance. In Taiwan, we must tread very carefully to avoid antagonising Peking, and here there is a distinction between some of our competitors and ourselves. They already have trade promotion bodies on the ground; we should have to set them up.

CONFIDENTIAL

6. As regards the Middle East, a prime objective of our present policy is to try to avoid the alienation of the Arab world from the West, in large part because of the risks which this would pose to our important commercial relations with the Arab countries. In the two cases, Iraq and Saudi Arabia, where we have recently faced difficulties, it was domestic incidents here, rather than the Government's foreign policy, which were responsible. You will recall indeed that on Iraq you yourself, in your letter of 15 May, specifically urged that we should not allow concern for our trade to deflect us from taking appropriate measures against terrorism. It is certainly true that our best Middle Eastern markets are becoming more difficult. But I do not believe that our foreign policy has been responsible for the problems which our exporters face in that part of the world, except in Iran where the Government chose a political response to the detention of hostages.

7. I am only too aware of the constraints imposed on our foreign policy by our limited resources, our historical obligations, our institutional responsibilities and our public opinion. But to the extent that we are free to choose, I am convinced that the right course is to exert what influence we can on world affairs and not be afraid of letting Britain's voice be heard. France and Germany, our two main commercial competitors in Europe, are both seeking to play a more active role in international affairs; indeed, the French make a positive virtue of such activity.

8. Finally, I would make one general point. The fundamental reason why our export performance is so bad has nothing to do with our foreign policy. It is because of the inability of our manufacturers to produce goods of the quality, quantity and price required. The reason why our competitors, particularly the Germans and the Japanese, succeed where we fail is because they, by contrast, are able to produce goods which their foreign customers want, at an attractive price and in an appropriate timescale. We are deluding ourselves if we think that our export failure is due to other, extraneous reasons.

/9. I am

9. I am sending copies of this minute to the Prime Minister, members of E Committee and to Sir Robert Armstrong.

C.

(CARRINGTON)

Foreign and Commonwealth Office

10 June 1980

Trade

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

cc Ind Pol: Pt 2
Mtgs with TUC 2

Prime Minister

I am sure that Mr Nott is right on X.

From the Secretary of State

Clive Whitmore Esq
Principal Private Secretary
10 Downing Street
SW1

2 June 1980

Dear Clive

IMPORT CONTROLS: AND CONSULTATIONS WITH THE TUC

My Secretary of State has seen the record of the suggestion put to Sir Robert Armstrong by Sir Arnold Weinstock on 19 May. He has also seen Mr Prior's views in the private secretary letter of 23 May.

On import controls, Mr Nott agrees with Mr Prior's thought that no reliable counterweight could usually be expected in return for Government action - action that would be difficult enough to get agreed in the Community and internationally and could not anyway cover imports from the Community itself. But Mr Nott also feels that any idea of temporary control on imports as part of restructuring schemes for particular industries would be very dangerous. Because we should replace a real impulsion on both management and the unions - to seek and agree improvements - by much more comfortable paper planning agreements which could anyway hardly be expected to cover pay settlements over a period of years.

X

On a dialogue with the unions, Mr Nott would draw a distinction, as does Mr Prior, between consultation with unions on particular problems (unions have been in 1 Victoria Street on a number of occasions recently) and discussions about how the Government should run its policies.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Industry and Employment and Sir Robert Armstrong.

Yours sincerely.

Stuart Hampson

S HAMPSON
Private Secretary

Covering CONFIDENTIAL

Trade

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

20th May 1980

Ian Ellison, Esq.,
Private Secretary to the
Secretary of State for Industry

Dear Ian,

NON-TARIFF BARRIERS

TL 20/5

Ministers will be meeting under the Chancellor of the Exchequer's chairmanship to discuss NTBs on Thursday, 22nd May at 3.45 p.m. They will be considering the report of the interdepartmental Industrial Policy Group on possible extension of UK NTBs, and the Secretary of State for Trade's paper of 23rd April about unfair competition in the EEC.

The Prime Minister has however said she would like this issue to be considered in E Committee as soon as possible after the Ministerial meeting. I therefore enclose the first draft of a paper for E Committee prepared by Treasury officials, as a basis for Ministers' discussion.

I am copying this letter with enclosures to Richard Dykes, Stuart Hampson, Michael Richardson, David Edmonds and Tony Mayer, and to Tim Lankester and David Wright for information at this stage.

Yours ever,

M.A. HALL

Covering CONFIDENTIAL

NON-TARIFF BARRIERS TO TRADE

DRAFT PAPER FOR E COMMITTEE

There are frequent allegations by UK industrialists and traders that other countries operate non-tariff barriers (NTBs) on a scale which seriously affects some of our exports and that the UK does less than other countries to protect its industry by NTBs. The poor outlook for world trade, the sharp decline in UK competitiveness due to the appreciation of sterling and other factors such as increased competitio from the newly industrialising countries seem likely to intensify pressure on the Government to take a more vigorous line on NTBs, just as it has led to increased pressure for selective import controls. The Government needs a clear view of its attitude to NTBs if it is to deal effectively with these mounting pressures.

2. The Chancellor of the Exchequer convened a small Ministerial sub-group, comprising the Secretaries of State for Employment, Industry and Trade, in order to examine the nature and scale of the problem and the policy options. This paper reports the findings of the Ministerial sub-group and their recommendations for action.

Definition and Extent of NTBs

3. In this paper, NTBs are taken to be impediments to international trade other than explicit controls on trade such as tariffs, quotas, licensing arrangements and import deposit schemes. NTBs can include national standards, regulations, test procedures, etc with which it is difficult or burdensome for foreign producers to comply; subsidies and price controls to benefit home producers, etc. (Discriminatory public purchasing policies also come within the ambit of NTBs. Ministers have recently reviewed UK public procurement policy, and follow up action is being taken.) The essential feature of all such measures is that they are justified - in some cases quite reasonably - as securing legitimate domestic policy objectives such as safety or consumer protection. It is therefore difficult to prove that a practice or requirement by another country which is inconvenient for our exporters is deliberately designed to limit imports.

4. For this reason, and because NTBs are by their nature operated covertly, it is very difficult to assess their extent in other countries or the amount of trade which may be frustrated by their existence. Allegations are most frequently made against France, Italy and Japan but are also made against such stern proponents of free trade as the FRG and the USA. Some examples of alleged NTBs are given in Annex A. Although quantification is impossible, we doubt whether NTBs have a significant effect on the totality of UK exports. However, they probably do have a significant localised impact on certain UK exports and in certain markets (eg fork lift trucks to France).

General Considerations

5. There are strong economic arguments against NTBs. They are inconsistent with the Government's support for free trade as the best means of maximising economic welfare, [which E Committee endorsed when it discussed trade policy on 22 May] and which was only recently demonstrated in the parallel field of capital movements by the abolition of exchange control. The existence of NTBs in other countries is not necessarily a justification for erecting them in the UK because for each UK supplier who manages to sell a product in the home market with the help of an NTB, there is a consumer or enterprise which is denied the benefit of buying cheaper/better products from abroad. Carried too far, this could harm industrial efficiency.

6. The economic arguments in favour of NTBs are that they can improve the terms of trade; that this gain may outweight any loss of consumer choice and efficiency; and that NTBs may in certain circumstances help to strengthen industry - the infant industry argument.

7. The use of NTBs is also inconsistent with a number of international agreements. The multinational trade negotiations which were completed last year contain a number of Codes whose purpose is to reduce NTBs, for example those on standards, Customs valuation, import licensing procedures and Government procurement. Members of the EEC are also bound by the Treaty of Rome not to take action which distorts competition. Practice falls short of this ideal but membership certainly curbs the use of NTBs by Member States.

8. A more general argument against the systematic use of NTBs is that it risks unleashing a competitive escalation in which the UK, because of its relatively open Government and high degree of public accountability, would lose out. The contrary view is that since other countries, many with stronger economies than our own, employ NTBs we should do the same, particularly given the present poor outlook for world trade.

9. [The Ministerial sub-group identified two broad policy responses to the existence of NTBs in other countries. One response would be for the Government to intensify use of NTBs in the UK. The other response would be for the Government to increase its pressure on other countries to dismantle their NTBs. These approaches were not regarded as mutually exclusive. The Government's desired end is a multilateral reduction of NTBs, but pending more tangible progress on this front some selective use of NTBs in the UK can be justified. Ministers therefore invited officials to consider the scope for action under both these approaches.]

<u>Intensified Use of NTBs in the UK</u>

10. The interdepartmental Industrial Policy Group considered the scope for intensifying the UK's use of NTBs in a few areas. They concluded that attempts to modify existing standards, regulations and practices so that they became effective NTBs did not look very promising, but they identified five areas where it would be possible to introduce new regulations which could be presented as serving legitimate domestic policy objectives and which could be of some advantage to UK industry. The five proposals are described in the IPG Report (attached), but in summary are as follows;

a. <u>Payment of VAT on imports</u>

The proposal to accelerate the payment of VAT on imports is not strictly an NTB since it would be removing the present preferential tax treatment of imports as compared with domestically produced goods. It has the added advantage of producing a substantial amount of revenue in the year of introduction and for this reason the Chancellor considered it in the run-up to the Budget. However, he concluded that further study was needed before a decision was taken and this is in hand.

b. Sperm Whale Oil

The proposal is for steps to secure an EC secondary ban on the import of leather and leather products containing sperm whale oil. The primary objective would be conservation of whales, and the move could be presented as a logical extension to the prospective EC primary ban on the import of sperm whale oil itself. (It is helpful that Commission officials are proposing independently that the ban should be extended in this way.) A UK initiative should, however, wait until after the Council has agreed to the primary ban, probably later in the summer.

c. Country of Origin Marking

DOT Ministers had already decided, subject to consultation, to introduce compulsory origin marking in respect of cutlery, textiles, footwear, clothing and domestic electrical appliances. The IPG recommended that it should be further extended to cover garden and hand tools, toys and games, brushes, domestic pottery and domestic holloware. The Minister for Consumer Affairs has agreed to this extension with the exception of brushes. These proposals would need careful handling in relation to the EEC.

d. National Type Approval Scheme for Commercial Vehicles

The IPG commend these proposals, which the Department of Transport has formed in collaboration with the Department of Industry and Trade. They would involve putting the UK on a similar footing to other Member States in subjecting commercial vehicles to a series of tests before being sold in the UK. Such a scheme could have a small but beneficial effect on imports. It would involve significant costs to industry and require up to 20 civil servants to set up, and half that number on run. On timing, the earliest possible operational date would be October 1981, but a later one would be more likely.

e. Safety Standards and Regulations

The Department of Industry, Health and Safety Executive, and the BSI should complete as soon as possible, the task of selecting suitable product standards for incorporation in HSE codes of practice. The effect of this move would be to strengthen the standards, and would tend to operate in favour of British products.

11. [The Ministerial sub-group concluded that a move to erect widespread NTBs would be inconsistent with the Government's general economic policy and with its international obligations, would invite retaliatory action from which we might be net losers, and would in many cases give rise to additional staffing requirements. Any package of new NTBs which was likely to escape international censure was unlikely to have a significant effect on the volume of UK imports. On the other hand, selective use of NTBs, where they could be presented and defended as being in support of other desirable objectives, could be justified as a means of placating industry's anxieties about unfair competition, particularly where this took the form of foreign NTBs impeding their exports. In some circumstances these NTBs might be of some assistance in putting pressure on other countries to abandon their NTBs. Ministers therefore agreed that the proposals in paragraph 10 above should be pursued further with a view to eventual implementation.]

NTBs in Other Countries

12. Ministers agreed that consideration of whether more could be done to secure the dismantling of NTBs in other countries should be confined initially to action within the European Community.

13. Officials and the Official Committee on European Questions have considered the related problems of disruptive imports from other Member States at "unrealistic" prices (ie alleged dumping, which is not banned by the Treaties) and the frustration of exports by NTBs elsewhere in the Community. Officials are considering separately the question whether it would be in the UK's interest to work for new EC rules on unfair internal competition which tends to take the form of predatory pricing. This paper considers only the NTB aspect but it should be borne in mind that action against NTBs has to be closely

coordinated with action on other aspects of unfair competition, and take account of where the balance of our interest lies on all of these related issues since in some areas, such as the Continental Shelf, the UK is vulnerable to attack by other Member States.

14. The Treaty of Rome provides for the free movement of goods, persons, services and capital. Considerable work has already been initiated to eliminate intra-Community NTBs - eg Article 100 Directives and competition rules - and case law of the European Court is accumulating, but progress is slow and at the end of last year the Commission were investigating over 400 complaints. Problems arise particularly in five areas: technical barriers to trade (standards); administrative obstructions; obstacles to investment; the provision of services; and public procurement.

15. A major initiative by the Government to secure the removal of intra-Community NTBs would be a very uncertain way of trying to advance matters and would not necessarily be to the net benefit of the UK. New rules, procedures or organisations in the Commission would prove onerous to Member States and on occasions meddlesome. It would be better to concentrate our efforts on making more intensive use of existing procedures. Officials have identified a number of options, which are summarised below.

a. <u>Technical Barriers to Trade (Standards)</u>

i. Voluntary "standstill agreements " under which Member States delay the introduction of measures that could act as NTBs for up to ten months could be made <u>mandatory</u>;

ii. Continued support for the Commission Working Group examining problems arising from national approval and certification procedures. The UK should continue to press for accredited national procedures to be acceptable in other member countries;

iii. Acceleration of the harmonisation programme should be our main aim since it precludes unilateral introduction of new, more stringent standards by any Member State for the product in question once harmonisation has been secured.

However the Government is opposed to the Commission's delegating decision-making to a sub-group or, failing agreement, by qualified majority voting at Council level. Our preferred course is for the Commission to concentrate harmonisation activity on a limited number of priority areas. We should consult industry about which these areas should be.

b. Administrative Obstruction

Our interest is in simplification of the procedures and documentation for the collection of VAT and statistics on imports. Some countries are unenthusiastic about this and a Ministerial initiative is needed if we are to try to move matters forward.

c. Obstacles to Investment

The UK should continue to press for the withdrawal of the derogation to the French under Article 108(3) whereby they retain certain temporary exchange control powers, which they have used to frustrate inward investment eg Lucas/ Ducellier. Consideration is being given to whether changes in Community competence regarding mergers could help to prevent cases where other governments prevent British firms from taking over local firms for purely political or chauvinistic reasons. However, very careful examination would be needed of where the balance of advantage for the UK lay in any proposed change.

d. Freedom to Provide Services

Barriers to intra-Community trade in services remain and their rapid removal would be likely to benefit the UK on balance. EQS have identified insurance as a promising area in which to press for progress. Opening up of the banking and building society sectors could also be to our benefit.

e. Public Procurement

As agreed by E Committee when it discussed public purchasing policy on 20 February, the UK should continue to respect its international obligations in this area. These have not so far resulted in a major loss of business to UK firms but are opening up new export opportunities. We should continue to press for full compliance with the EEC Works and Supplies Directive in the EEC Advisory Committee for Public Contracts.

16. More generally there is scope for orchestrating pressures on the Commission by MEPs, the CBI and TUC, trade associations etc to deal with allegations of unfair competition with greater speed and determination. An interesting development is the establishment by the Economic and Monetary Affairs Comittee of MEPs, of a working group on technical barriers to trade. The Department of Industry have established a channel for briefing the UK MEPs and initial results have been encouraging. It might also increase the effectiveness of the Commission, and increase confidence that they were concerned about these matters, if their proceedings were more transparent.

17. [The Ministerial sub-group concluded that a major demarche on unfair competition in the Community, including proposals for organisation and procedural changes, would not necessarily be to the advantage of the UK. They agreed that an intensification of current activities within the EEC on the lines discussed above was desirable and, subject to the views of E Committee, should be put in hand, and that bi-lateral negotiations with other Member States would continue to be the most appropriate way of dealing with some alleged NTBs.]

Conclusions and Recommendations

18. [Current economic circumstances - with on the one hand growing competitive pressures on British industry and evidence of a more protectionist stance on the part of some of our trading partners, and on the other hand the danger of a world-wide drift into protectionism - argue against exclusive reliance on either of the policies on NTBs described in paragraph 9 above (seeking the

removal of other countries' NTBs, or creating more NTBs in the UK). The general preference should be for the removal of NTBs but progress on a multilateral basis is inevitably slow. We need to decide our policy in relation to the circumstances of each case. The Ministerial sub-group therefore recommends that;

a. Proposals in the IPG Report, summarised in paragraph 10 above, should be pursued further with a view to implementation;

b. The proposals in paragraph 15 above for intensifying current activities to remove NTBs in the EEC should be adopted;

c. Departments should look for opportunities to assist British manufacturers to deal with unfair competition arising from other countries' NTBs by seeking their removal and/or taking countervailing action in the UK as appropriate in each case.]

19. The Ministerial Sub-Group did not concern itself with NTBs in the food and agriculture fields. The Ministry of Agriculture and the Department of Trade are currently examining a number of specific complaints made by trade associations concerning NTBs in the food and drink sector, following a recent initiative to encourage greater food exports. This dimension will have to be taken fully into account in reaching decisions for action.

IP Division
HM Treasury

Subject filed on Industrial Policy: Pt 2 Mtgs with TUC

CABINET OFFICE

70 Whitehall. London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB.CVO

R. 22/5

19th May, 1980

Ref. A02203

Sir Arnold Weinstock spoke to Sir Robert Armstrong on the telephone at lunchtime today.

Sir Arnold Weinstock wanted to get people thinking about a suggestion that, following the fiasco of the "Day of Action" on 14th May, which had left union leaders in disarray and "all over the floor", the Government should take an initiative to open a dialogue with them. He quoted Sir Winston Churchill: "In defeat, defiance; in victory, magnanimity". He thought that they needed to be seen in some sort of dialogue with the Government to avoid losing the remnants of leadership which they still possessed.

He was not thinking about anything at the highest and macro-economic level. The National Economic Development Council was there for that, though it was not a body for which he had much regard. What he had in mind was something on the next level down, where in his view the sector working parties had been ineffective, amateurish and too low level. The object should be to get representatives of sectors or of industries together with the Government at a reasonably high level - nothing lower than a junior Minister - to see if they could agree upon some specific and practical measures.

Sir Arnold Weinstock said that he was personally against import controls in principle; but, if he believed that limited and selective controls for a short period would enable industries to recover efficiency and competitiveness, he would not rule them out. His suggestion was that, if management and in particular unions were ready to enter into solid and practical undertakings to improve efficiency and productivity, then the Government should be prepared to throw into the pot a limited and temporary measure of protection from imports. That measure would be removed the moment there was any strike or failure to achieve the measures agreed by the other parties.

Sir Robert Armstrong said that he would make sure that the relevant Ministers were made aware of Sir Arnold Weinstock's suggestion.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Trade.

D. J. WRIGHT

R. Dykes, Esq.

(D.J. Wright)

Trade

10 DOWNING STREET

Prime Minister

Mr Nott is anxious you should have a chance to read this in advance of Thursday's meeting of E Committee.

Duty Clerk.
18/6.

MS.

Confidential

Trade

2 PP's

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

2nd May 1980

S. Hampson Esq.
Private Secretary to the
Secretary of State for Trade

R
2/5

Dear Stuart,

Tim Lankester has reported that the Prime Minister would like E Committee to discuss a paper on non-tariff barriers shortly after the Chancellor's meeting on 22 May. In view of the fact that the current exercise arose out of an initiative by the Chancellor and that the paper for E Committee will need to cover the Industrial Policy Group report, the Chancellor would prefer the paper to be prepared jointly by officials of your department, the Treasury and Department of Industry.

It would be helpful if Ministers could consider a first draft of this paper on 22 May, and Treasury officials will prepare a draft for discussion with other officials in the next couple of weeks.

I am sending copies of this letter to the Private Secretaries to other members of E Committee and to David Wright (Cabinet Office).

Yours ever,

M.A. HALL
Private Secretary

DEPARTMENT OF TRADE
1 VICTORIA STREET
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Telephone Direct Line 01-215
Switchboard 01-215 7877

Mr B Ingham
Press Secretary
10 Downing Street
LONDON
SW1

1 May 1980

Dear Bernard

IMPORT CONTROLS

In my letter of 24 April on this topic I promised to let you have a copy of our sheet to back-benchers setting out salient export facts. This is now ready and I attach a copy.

Mike

MICHAEL GARROD
Head of Information

cc Mr T Lancester
Mr N Gaffin

A SELECTION OF STATISTICS ON UK TRADE

1. Share of exports of goods and services in GDP.

	(1977)
United Kingdom	31%
United States	8%
Japan	13%

2. Share of world trade.

The UK has maintained her share of the value of main manufacturing countries exports of manufactured goods since 1973, at around 9 - $9\frac{1}{2}$ per cent.

3. Increasing dependence on exports of goods and services.

UK exports as a share of GDP in 1970 - 23%

UK exports as a share of GDP in 1979 - 30%

4. The Japanese economy is $2\frac{1}{2}$ times the size of our own, but the value of their exports of goods is not very much different to our own.

5. In 1979 the United Kingdom had a £2.1bn crude surplus on trade in manufactures with the low wage developing countries (other than the oil exporting countries), whose imports into the UK are regarded as a threat. These countries account for $8\frac{1}{2}$ per cent of our total imports of manufactures.

6. In 1979 the United Kingdom had a £1.2bn crude surplus on trade in manufactures with the newly industrialising countries, such as Korea, Taiwan and Mexico. These countries account for $9\frac{1}{2}$ per cent of UK imports of manufactures.

7. Import penetration.

Over the past 5 years the industrial sectors where the share of output exported has risen outnumber those where import penetration has increased.

European Community

8. The value of exports to the EC grew at nearly 4 times the rate of exports to the rest of the world in 1979, and faster than imports from the EC.

9. The UK share of main manufacturing countries exports of manufactures to the EC has grown from $7\frac{1}{2}$ per cent in 1973 to 9 per cent in 1978.

10. The export/import ratio for trade with the EC is at its highest level since 1971. 42 per cent of our trade is now with the EC compared with 29 per cent in 1970.

11. Britain's top 10 export markets in 1979 include all the EC countries.

		£ bn			£ bn
1.	West Germany	4.2	6.	Belgium/Luxembourg	2.5
2.	USA (& dependencies)	4.1	7.	Switzerland	2.4
3.	France	3.1	8.	Sweden	1.5
4.	Netherlands	3.1	9.	Italy	1.5
5.	Irish Republic	2.6	10.	Denmark	1.0

Invisibles

12. Invisible earnings are equivalent to around one half the value of our imports of goods.

13. Invisible earnings have doubled since 1974.

Textiles

14. Imports of textiles and clothing from low cost producers only account for 12 per cent of the market. Of these 95 per cent are under some form of import control.

15. 17½ per cent of the market is made up of imports from high wage economies such as the United States and EC, with whom we have no option but to compete, given the rules of the GATT and the EC.

16. In 1979 the UK clothing industry exports were £751 million, an increase of 12 per cent over 1978. The clothing industry's target for exports in 1980 is £1 billion.

17. 70 per cent of the British clothing market is supplied by firms in this country.

-2 MAY 1980

CONFIDENTIAL

Fle

Trade

10 DOWNING STREET

From the Private Secretary

29 April 1980

Dear Martin.

The Prime Minister understands that the Chancellor will be holding a meeting with the Ministers most closely concerned on 22 May to discuss import policy and the question of non-tariff barriers. This is to confirm that she would like this issue to be considered in E Committee as soon as possible after the Chancellor's meeting. This would be on the basis of a paper from the Secretary of State for Trade.

I am sending a copy of this letter to the Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

Yours ever

Tim Lankester.

M.A. Hall, Esq., MVO,
HM Treasury.

8(?)

Trade

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R

Mr B Ingham
Press Secretary
10 Downing Street
LONDON
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24 April 1980

Dear Bernard

IMPORT CONTROLS

The answers to your note about my Secretary of State's letter to Len Murray on import controls are yes, Len Murray did make his letter public, and yes, we did publish our reply. The results you can see from the attached cuttings - coverage in the news columns in just about all papers. We issued it to the Lobby as well as news desks, industrial and business Correspondents and did a lot of telephone briefing in conjunction with it. There were other references too, notably in the Financial Times and in the Guardian, Frances Cairncross applauding and the new Guardian Leader Writer looking at an Imports Deposits Scheme.

CBI policy appears to be in some state of flux. They did launch a discussion document "International Trade Policy and Industrial Change" in January which, while espousing the case for free trade and rejecting "Wholesale protectionism", nevertheless floated the idea of protecting "core" industries". I attach a CBI summary. The document was issued for discussion "over the next few months" so presumably there will be a published outcome. In addition to that, I have heard other rumbles of protectionist pressure in CBI circles.

All this, of course, is only part of the scene and pressures for import controls have come recently from a number of sources, from the textile and footwear industry to the Cambridge Economic Policy Group. There have always been pressures from some quarters but it appears to be growing and must be expected to grow with the difficult trading conditions expected over the next year or so.

We have been giving considerable thought and effort to how the pro-free trade anti-protectionist message can be put across. My Secretary of State and Cecil Parkinson, Minister for Trade, have made several speeches recently covering the subject; for example. Mr Nott's speech to the Institute of Directors on 25 March 1980

Contd/...

MR B INGHAM IMPORT CONTROLS 24 April 1980

which got goodish coverage. Mrs Oppenheim has also gone over the ground in her speech at the National Consumer Congress on 30 March. We have issued replies to other letters too from the Confederation of British Wool Textiles Limited, from the Joint Chairmen of the House of Commons All Party Group on Textiles and from APEX about car imports. Mr Nott has recently discussed import controls on television programmes, particularly a whole programme devoted to the subject on BBC 2's "Newsweek" and will be appearing in the "Weekend World" programme on import controls on 4 May. One of the other things in the mincing machine is to encourage other anti-protectionists to speak out, both in and outside Government. The first speaking note for the Economic Education Campaign included a passage on import controls and we are planning a speaking note on the subject.

One aspect we are emphasising is the good side of our export performance - and there is, surprisingly to me as a relative newcomer to the Department, a pretty good story to tell in many respects. It does help to knock the picture of a sick deindustrialised Britain which can only survive by being protected against nasty foreigners. I attach a recent Guardian cutting which takes up this theme. A "Money Programme" edition in which the Secretary of State appeared concentrated on this two weeks ago and "Engineering Today" are doing something similar with an interview by Mr Nott. A brief sheet giving some salient export facts is being prepared here and is just about to be sent to back-benchers. I will let you have a copy when ready.

Any help you can give in all this by taking any appropriate opportunity to brief the Lobby, or by the Prime Minister speaking on the subject, would be welcome. I suspect our skirmishes so far are only the beginning of a pretty long war.

Mike

MICHAEL GARROD
Head of Information

ENCS.

cc Mr T Lankester
Mr N Gaffin

BLIND COPIES:

Mr J Cole-Morgan
Mr S Hampson

Confederation of British Industry
News Release
21 Tothill Street London SW1H 9LP Telephone 01-930 6711 Telex 21332

P.1.80

NOT TO BE PUBLISHED OR
QUOTED BEFORE 0030 HOURS
ON MONDAY 7 JANUARY 1980

CBI CALLS FOR MORE FREE TRADE BY OTHERS - NOT LESS FOR BRITAIN

How can Britain, as a major trading nation, best overcome her trading difficulties in the increasingly competitive world markets of the 1980's?

That is the question posed by the Confederation of British Industry in a discussion document circulated to its member companies and trade associations and issued today (Monday 7 January 1980).

"Wholesale protectionism would not serve British industry's best interests, and if their potential as markets is to be realised newly industrialising countries must be allowed the opportunity to earn adequate foreign exchange", says the CBI.

But should we accept that there is no future for uncompetitive British industries and no justification for protecting them? Should we continue to deal with the problems of particularly sensitive industries by imposing import controls? Should we formulate an industrial strategy for Britain or the European Economic Community based on "core" industries?

"The fundamental issue of free trade versus protectionism emerges as largely a matter of degree. A main aim must be the elimination of unfair trade practices both between industrialised countries and between them and the Third World", the CBI says.

The document, entitled "International Trade Policy and Industrial Change", is based on a study of specific trade problems identified by a sample of some 50 CBI member companies and trade associations. The response to the questions it poses will be debated over the next few months by CBI committees, regional councils, and the CBI's governing council, and discussed with the Government. The result will be a re-statement of CBI policy both to the Government and the EEC setting out the lines the CBI believes Britain and the Community should follow on international trade issues.

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The discussion document examines the threat to Britain's trading position from non-EEC industrial countries (United States, Japan and Canada); the Middle East oil producers; other Third World countries; and the Communist States. It says that policy changes may be needed to deal with dumping and other problems of trade relations with Eastern Europe and China.

THREAT FROM NEW INDUSTRIAL COUNTRIES

It also considers the impact of newly industrialising super-competitive countries like Hong Kong, South Korea, Taiwan and Singapore. These will pose an increasing threat to British industry as they move away from textiles, footwear and radios and into the production of more sophisticated capital goods such as machine tools and pumps. This "super-competitive" league may be joined in the next few years by far larger countries like India and Brazil.

The main findings of the CBI study so far are:

a) In the period of slower growth of world trade which lies ahead, competition is bound to grow more acute than ever.

b) Increased protection for British industry in general cannot be the right policy for a trading nation that exports 30 per cent of its gross domestic product - more than any other major industrial country.

c) Some of the rapidly developing countries ought now to be accepting more of the free trading obligations shouldered by industrialised nations under GATT, and a better mechanism is needed for encouraging them to do so.

d) Some ageing industries in Britain and other industrialised countries need time for adaptation to new market conditions, and here too better machinery is needed for giving such industries the required breathing space.

"The problem is at least as much to ensure better access to foreign markets for British products as to compete against import penetration in our own," says the CBI. "A major push is needed over the next few years to eliminate unfair trade practices and reduce non-tariff barriers. More effective reciprocity of opportunity would substantially help British goods to compete abroad: we need more free trade by others - not less by Britain".

15 APR 1980

Overseas brush spoils a decent picture

Rod Chapman looks at how developments outside the UK affect its economic prospects

AS CURRENT developments related to the Middle East are demonstrating, the swings and roundabouts of international trade could prove a more than usually determining factor for Britain's economic situation this year — a consideration to set against the clamour for protectionism and withdrawal from the EEC.

The continuing imbroglio over the Death of a Princess programme, not to mention the uneasy discussion on this side of the Atlantic over President Carter's calls for sanctions against Iran, come at a time when British exports are looking healthier than might be diagnosed.

The Trade Minister, Mr Cecil Parkinson, pointed out on Friday that exports had just passed the £4 billion mark for the first time ever. And over the last three months, he added, exports of manufactured goods were 3 per cent up, against a 1 per cent rise in similar imports.

The figures, in Mr Parkinson's view, should put into perspective claims by Wynne Godley's Cambridge Economic Policy Group that this country has no alternative left but to gird itself with general import controls and embark on a siege economy.

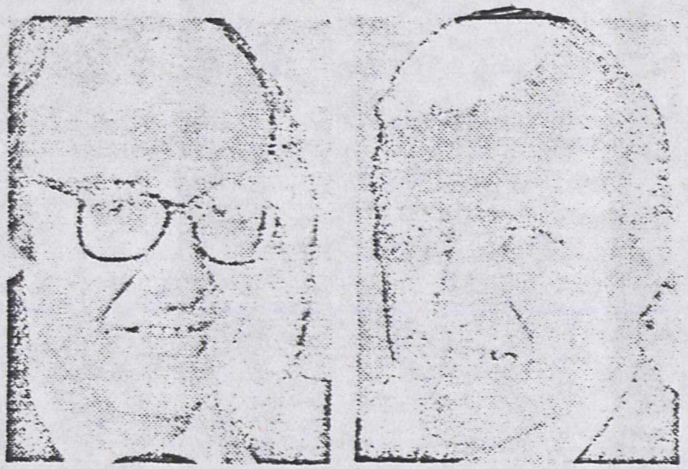
Mr Parkinson was whistling in the wind of the next batch of trade figures, due at the end of the week, which are likely to show a rise in last month's £176 million deficit through slackening British industrial output and steel exports sucked in during the strike.

However, the February figures did show a reversal of the protracted slump which has seen Britain's traditionally large surplus on manufactured goods whittled down to a mere £11 million in January (it was up to £132 million the following month).

It is customary to assume that exports, like most other features of the British economy, have sunk to levels undreamt of before deindustrialisation gloom set in. In fact, although the effects of the British Overseas Trade Board's "Export Year" campaign of 1977 tailed off, exports rose by a quarter in the last four years — and Britain now exports around a third of its GDP compared with a quarter in the mid-70s.

The snag is that the trading picture can be changed dramatically by political developments: Nigerian import controls (and that country's moratorium on trade with Britain while the Rhodesian situation worked itself out) together with the Iranian revolution lost Britain over £1 billion in exports last year.

The present crises put in jeopardy £900 million of exports to Saudi Arabia and a partial recovery in trade with Iran—which is now running at only half of the 1978



John Nott (left)—no import controls; and Cecil Parkinson — encouraging on exports. Pictures by E. Hamilton West

level but well above last year's disastrous volume. Despite the Trade Secretary, Mr John Nott's criticism of the Death of a Princess programme at the weekend as an "ego trip," British exporters dealing with the Saudis are hoping the crises will blow over sufficiently for them to win contracts under the Saudis' new, £125 billion five-year development plan.

The only major roundabout currently in sight is provided by Nigeria, whose trade representatives in London told a seminar last month that an anticipated recovery in the Nigerian economy this year and next could restore British exports to the £1 billion level of 1978 (they were down to £640 million last year).

Given the uncertainty over Middle East trade, some UK polemicists may find it useful to re-examine the pattern of Britain's overseas trade. As the latest Department of Trade statistics show, Britain's trade with the Common Market is the fastest growing part of that trade—although our trading deficit with the EEC has widened to over £2 billion.

Anti-marketeers contend that this trade would have grown anyway, without Britain having to become embroiled with the Common Market farm subsidy system and its abuses. Other trading options, goes the argument, would have allowed similar development.

EFTA reactions to that line at that organisation's twentieth anniversary celebrations next month would be instructive: with the imminent accession of the Mediterranean countries to the Common Market, EFTA is left with little to celebrate. (And member countries like Switzerland, which has chalked up a huge trading deficit with the EEC despite its special cooperation agreement, are concerned at the concentration of trading power in the EEC.)

At the outset of the last decade, Britain's exports to EFTA were worth some 70 per cent of those to the EEC as it was then; they are now down to a third of that level. Similarly, exports to the Commonwealth, which were on a par with those to the Common Market, are now down to slightly below the value of those to EFTA.

Australia is the only Commonwealth country still among our major trading partners (though Australia, Canada and South Africa have all dropped out of our top ten export markets in the past decade)—but eliminated preferential tariffs on British goods last year on order to intensify its trade, quite logically with South-east Asia.

It is slightly ironical that a government which may be triggering off a trade war with the US through its imposition of import quotas on American synthetic fibres should now be voicing free trade sentiments. But it is interesting to note that the free trade "wets," if that category is to be added to the new political terminology, should now appear to be in the ascendancy.

Mr Nott's rejection last week of a TUC appeal for generalised import controls and that of a parallel call from the British Wool Textile Confederation were made in the name of not just the Trade Secretary but of the Industry Secretary, Sir Keith Joseph, and the Prime Minister respectively.

They provided a salutary foretaste for the coming EEC summit: having dipped into the protectionist Pandora's Box, British trade ministers now seem to realise that it may not be a bad thing after all to have the strength of the major European trading alliance around the UK at a time of recession. The non-aligned are likely to be the worst sufferers if the major trading blocks start putting up the barriers—which officials at the General Agreement on Trade and Tariffs fear they may attempt to do, whatever the spirit of the newly-concluded Tokyo Round.

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10 APR 1980

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
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Thursday April 10 1980

The case for free trade

AS BRITAIN'S economic recession deepens, the calls for protectionism from unions and certain industrialists will undoubtedly become steadily more strident. It is therefore reassuring that the Government decided to respond to the protectionist demands put forward by the Trades Union Congress last month, not just with a flat rejection, but with a reasoned statement of its policy on trade. With this statement, which took the form of an open letter from the Trade Secretary, Mr. John Nott, to the TUC, the Government has tied itself firmly to the cause of free trade. Any significant deviation from liberal trading principles will now have to be acknowledged publicly as a repudiation of established policies and a major U-turn.

Persuasive

In addition to the standard arguments in favour of free trade, to which governments all over the world have at least paid lip-service for decades, Mr. Nott makes a number of points more specifically relevant to Britain's current economic position. These ought to be persuasive even to sceptics who may have doubts about the benefits of free trade as a general economic principle.

For Britain at the present time protectionism would be a uniquely undesirable course for several special reasons. The strength of the pound is one of the major problems confronting British industry. But selective import controls could, if effective, drive the pound even higher and thus make life more difficult both for exporters and for domestic industries in sectors which remained unprotected. This apparent paradox arises because North Sea oil has largely insulated both the exchange rate and the overall trade balance from the effects of a sharp deterioration in non-oil trading. As a result, Britain's overall trade balance in the next year or two is likely to be considerably stronger than that of most other industrialised countries. On balance of payments considerations, Britain has less reason to fall back on protectionism than Japan and Germany. Both of these countries expect trade deficits of more than $10bn this year.

The exceptional importance of exports in Britain's national output makes it especially dangerous for Britain to embark on protectionism. The share of exports in Britain's GDP is double that in Japan. Thus, while North Sea oil would make it especially difficult to justify import controls to Britain's trading partners, no other country has so much to lose as Britain from trade retaliation. Britain's extreme dependence on trade may, in some ways, be a disadvantage during a period of international economic instability. But the enormous structural adjustments required to convert Britain from a trading to a more self-sufficient nation would be at least as painful as the one British industry is now facing.

Even if Britain were able to impose import controls with impunity, the economic adjustment to higher productivity would still have to be made in order to maximise living standards prevailing in other countries would have to remain the central objective of economic policy. If this could be achieved, British industry would automatically become internationally competitive. A policy of import controls would affect this process of necessary adjustment only by making it slower and more uncertain: it would require government planning to take over the role now being played by international market forces.

In fact, it is only in the context of a fully managed economy that an intellectually coherent case for import controls can be put forward. Even Mr. Wynne Godley's Cambridge Economic Policy Group have argued that selective import controls, designed to protect uncompetitive industries, would be counter-productive. But Mr. Godley's generalised import controls are intended for an economy where the government assumes responsibility for active demand management.

Experience

Import controls of this kind are designed not to protect specific industries, but to allow the government to stimulate demand, by means of fiscal and monetary policy, to a level which the balance of payments would otherwise have made unattainable. But Britain's experience over the past ten years has shown that such artificial stimulation leads only to excessive wage settlements and inflation.

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14 APR 1980 GUARDIAN 10

Two sorts of import control

Defenders of the free trade faith have every right to be surprised by the letter from Mr John Nott, the Trade Secretary, to the TUC the other day. Mr Nott firmly rejected the case for selective import controls—but he signally failed to meet the more insistent case for general controls on the growth of imports, of the kind proposed by the Cambridge Economic Policy Group.

Mr Nott's key arguments are worth reprinting for they are substantially correct: "Import controls would treat the symptom rather than the disease, and they would do so in a way which would be likely to make the situation worse. . . . They would deprive British manufacturers of supplies of imported equipments and materials on which success in the home and domestic market might depend.... They would put up prices, thereby fuelling inflation and restricting consumer choice. The removal of the spur of competition would encourage complacency, and shelter the inefficient. . . ."

All of which is a very convincing case against selective import controls of the piecemeal variety. But those are exactly the sort of controls that Mr Nott is implementing. As he pointed out, we have selective import controls on "textiles and clothing, iron and steel, consumer electronics, Japanese cars and a variety of other products." In the last two months alone, Mr Nott has persuaded the EEC Commission to impose quotas specifically for the British market on synthetic fibre imports from the United States and blouses from Indonesia.

Mr Nott's letter failed to reconcile these contradictions in the Government's own trading policy, but it also failed to tackle the more fashionable case for protectionism. Selective import controls do indeed have many of the ghastly side effects which Mr Nott has enumerated, and more to boot. But a policy of controls on the growth of imports is not subject to the same objections.

In the long term, our economy cannot grow without provoking a balance of payments crisis unless our exports grow faster than our imports. North Sea oil has, unfortunately, not changed this reality. Even when North Sea oil production was growing rapidly, our manufactured trade deteriorated enough to cancel out the windfall. Import-growth controls would simply allow the Government to stimulate the economy and growth without immediately sucking in more imports and having to deflate sharply once more.

The Government (on this argument) would operate such controls by selling a quota of foreign exchange to the highest bidders. They need to be no more bureaucratic than the sale of government bonds. Unlike selective import controls, they would not distort the British market, because no manufacturing company would have an unfair advantage over another. The weak would continue to suffer competitive pressures, while the strong would have an assured and growing market. There is plenty of room to expand output in Britain, as current unemployment and capacity rates testify. And if the Government did not overstimulate the economy, exporters would become more competitive because they could spread their overheads over more production.

Nor would import-growth controls drive the pound higher, because the Government would not cut the level of imports, but simply restrict their growth. Import growth controls would also put up prices by less than any alternative growth strategy, and certainly by less than an overall devaluation. Unlike selective import controls, which cut the level of imports into Britain, import growth controls would not export our unemployment and therefore would not be a legitimate cause for retaliation.

These controls would, however, be a marked and bitter break with the post-war consensus, which has been based on the gradual elimination of barriers to trade. They would certainly have to be negotiated with our trading partners. But it is too gloomy to suggest that our partners could not accept controls, whether their interests were harmed or not. Controls can be justified in certain circumstances under both GATT and EEC rules. Britain's import surcharge is one precedent which predates our membership of the Community; and Italy has also applied import controls with the connivance of the EEC Commission.

What is the alternative? The politics of decline will inevitably entail the economics of the absurd. Selective import controls are already widespread in the OECD countries. The proportion of Britain's manufactured trade which is "managed" has risen from virtually nothing in 1974 to 13 per cent last year, and these selective controls make a mockery of the efficient allocation of investment. They also make the task of moving the world economy out of slumpflation all the more difficult. Yet the trend to random controls is bound to worsen, as the import-controlling behaviour of the well-intentioned Mr Nott makes clear. The real alternatives are either merely to react to crisis by sliding willy-nilly down the road to random protectionism or, open-mindedly, to debate and examine the alternatives.

How import controls help the big guys at the expense of the poor an[d] the weak

ECONOMIC NOTEBOOK

by FRANCES CAIRNCROSS

ONE THING on which you can bet your life is that the 1980s will be the decade of protectionism.

Next week, the Cambridge Economic Policy Group publishes its annual siren song. Under the leadership of Mr Wynne Godley, the group has been developing a case of considerable intellectual elegance—and political naivety—for a framwork of import controls designed to make possible a policy of economic expansion.

The group's proposal is in quite a different class from the sort of protectionism which is being demanded by Mr Alec Smith, the general secretary of the National Union of Tailors and Garment Workers. But the Cambridge people provide comfort and succour and respectability to people like Mr Smith—and Mr Smith's kind of protection is a lot more likely to happen in the real world than Mr Godley's.

There are perhaps two points which are crucial to the Cambridge Group's advocacy of import controls. First, they believe passionately in the need for more expansionary economic policies than were pursued through most of the 1970s, as the only way to ward off industrial decay and endlessly rising unemployment.

Second, they see the balance of payments as the key constraint to more rapid expansion, and they do not believe that this constraint could be removed by devaluation without provoking a dangerous acceleration in inflation.

The form of protectionism which the group recommends has two important characteristics. It is unselective: all manufactured goods are to be covered. And it is not designed either to cut imports or to improve the current account. The group wants control on import growth.

There has already been a long debate over the Cambridge proposals. If you want a brilliantly clear and fair summary of the arguments, have a look at the article by Chris Allsopp and Vijay Joshi in the February National Institute Economic Review.

One of the points which has been repeatedly made, and to which Cambridge seems to have no convincing answer is: What happens in the longer run? It seems to me naive to expect the combination of import controls and reflation to produce a dramatic change in the productivity or the quality of management of most British firms, though perhaps it might if the policy were pursued for a generation.

But during that time, the controls on import growth have to be progressively tightened. What sort of an Eastern European nightmare of bureaucracy would that entail?

Ultimately, it is the air of political unreality about the Cambridge views which is their most disturbing feature. It seems odd, to put it mildly, to devote a lot of effort to a policy designed to get round the balance of payments constraint at a time when that constraint is so unimportant.

We are the one major industrial country self-sufficient in oil, and the chances of a fall in the real price of oil look increasingly remote. North Sea oil ought to be a perfectly adequate substitute for import controls.

The next 10 or 15 years ought to be the ideal moment to test out a policy of expansion free from the old constraint of the balance of payments. The reason why the Conservative Government is not pursuing Mr Godley's policy of expansion has nothing to do with the balance of payments. It is because of its fear that expansion would generate faster inflation.

Even if the balance of payments were the important constraint, the Cambridge view that we could get away with general import controls without serious international repercussions seems ingenuous. The Cambridge theory is that, because our imports would continue to grow, our trading partners abroad would put up with them.

I find it hard to imagine Mrs Thatcher selling that proposition to the French or to President Carter—particularly since we have the advantage of our own oil.

But the kind of controls we are actually likely to end up with — the ones we *will* be able to get away with — will be a lot less intellectually defensible than the Cambridge kind. That is not a reason for saying "Let's have Cambridge-style if we must have anything": it is a reason for making it clear at whose expense selective import controls are imposed.

For what we are likely to see in the 1980s is a continuation and an acceleration of the spread of selective devices to "manage" trade in the products in which British industry is weakest.

We have already gone quite a long way down that road. A paper by Sheila Page of the National Institue a a conference last summer tried to put a figure on the increase in non-tariff restrictions on trade between 1974 and 1979.

She defined non-tariff controls quite narrowly — excluding, for instance, things like subsidies for individual industries and health and safety regulations, which may be every bit as important as quotas or "voluntary restraints." (Think how important company cars have been in protecting the British car market.)

On her reckoning, the proportion of UK trade in manufactures which is "managed" has risen from virtually none to 13 per cent since 1974. That is much the same as what has happened in the OECD area as a whole. The change has been accompanied by increas- discrimination against ports from the develop countries by the indus world. The picture she pa is of a messy, uncoordin spread of controls to co nearly half of world tr and over a fifth of trade manufactures.

And that, no doubt, continue through the com decade—not just in Bri but throughout the develo world. If only because of limits imposed by the sh supply of oil and raw ma ials, we are in for a tim slow growth coupled wi with rising unemployment with hardly any growth in comes or both. It will very hard for most gov ments to shut their ears the well-orchestrated cry suppress foreign competiti

The import controls we most likely to get away w will be at the expense of Third World. At home, cost will be carried by c sumers—especially poor consumers, who buy H Kong shirts, Romanian su and Japanese cars.

Consumers, however, ar notoriously badly organi lobby.

The Consumers' Association, doing just what it ought to do, last year published a study of the renewed Multi-Fibre Arrangement to restrict imports of textiles and fibres from low-cost countries, arguing that it raised the price of basic clothing by between 15 and [illegible] per cent.

So all we consumers ought to have been grateful to Mr John Nott, the Secretary of State for Trade, last week, when he sent a six-page letter to Mr Len Murray strenuously arguing the case against import controls in all but "limited and particularly difficult areas".

As Mr Nott put it "Import controls . . . would be bound to create distortions and bottlenecks in the economy which would reduce efficiency. They . . . would divert our exports back into the home market to satisfy domestic demand. They would put up prices, thereby fuelling inflation and restricting consumer choice. The removal of the spur of competition would encourage complacency, and shelter the inefficient".

Quite right, Mr Nott.

GUARDIAN 18. 12.4.80.

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2 THE SUN, Wednesday, April 9, 1980

TUC TOLD: NO IMPORTS CURB

By CHRISTOPHER POTTER

A TUC demand for Britain to pull up the draw bridge to protect itself against overseas competitiors was rejected by Trade Secretary John Nott last night

Mr Nott said that bringing in import control could spark off fierce retaliation against Britain's exports—and the nation would suffer.

He urged both unions and bosses to pull up their socks and meet the opposition head on

Mr Nott bluntly told TUC General Secretary Len Murray in a letter: "Import controls would treat the symptoms rather than the disease — and they would do so in a way which would be likely to make the situation worse."

Example

He pointed out that millions of jobs in Britain depend on exports. And he warned: "We are particularly vulnerable to retaliation and have to be careful about setting an example in flouting trade obligations."

Mr Nott added: "We need to become more competitive — to build on a tradition for high quality, delivery on time, and good after-sales service."

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5 Financial Times Wednesday April 9 1980

Nott emphasises British support for free trade

BY FRANK GRAY

BRITAIN would not rule out import controls on certain materials but the Government remains emphatic in its support of the free flow of goods into and out of the UK, Mr. John Nott, the Secretary of State for Trade, said yesterday.

In a letter to Mr. Len Murray, the general secretary of the Trades Union Congress (TUC), reiterated the Government position that widespread controls would create "distortions and bottlenecks" in the economy, which would reduce efficiency.

In addition, he said, controls would:

- Deprive British manufacturers of supplies of imported equipment and materials on which success in the home market might depend;
- Divert British exports back into the home market to satisfy domestic demands;
- Raise prices, thereby fuelling inflation and restricting consumer choice.

His letter, in response to a TUC economic committee statement in mid-March expressing concern over Britain's 1979 trade deficit, said that Britain was "not ruling out import controls in limited and particularly difficult areas."

He pointed to the various restraints Britain had imposed which affected textiles, electronics and cars, and the import restrictions on U.S. polyester filament and nylon carpet yarn.

Mr. Nott added:: I certainly believe strongly in vigorous action through the Community against dumped or subsidised imports."

But a general policy of import controls was "very much the wrong road" for a nation as dependent as Birtain is on the growth of world trade.

"We can hardly encourage that growth by inhibiting it ourselves."

The heart of the problem remained Britain's lack of competitive capability, particularly in vehicle production.

Meanwhile, Reuter reports from Brussels: The EEC Commission is studying ways to co-ordinate voluntary curbs on Japan's exports of television tubes and sets to the EEC.

Talks are being held between EEC officials and the Japanese Industry Ministry (MITI) to reach a gentlemen's agreement, an EEC official said. The agreement would replace voluntary import ceilings agreed annually between some European manufacturers or governments and Japanese TV exporters.

No trade bar

A plea from the TUC for controls on imports to help British industry has been requested by Trade Secretary Mr John Nott.

DAILY MAIL 9

Import curbs rejected

By PETER HITCHENS

TRADE SECRETARY John Nott last night rejected trade union calls for import barriers to protect British industry.

He told TUC leader Len Murray that improved productivity and efficiency were better weapons against foreign competition.

The TUC had urged the Government to restrict foreign goods into Britain to aid our industrial recovery.

But Mr Nott wrote to Mr Murray: "Import controls would treat the symptom rather than the disease, and they would do so in a way that would be likely to make the situation worse."

British firms would switch goods away from exports to fill gaps in the home market —and they would jack up prices.

He said: "In several industries rising imports are the effect caused by our own industry's failure to be sufficiently competitive."

And he pointed out that retaliation by other countries could hit us very hard

2 DAILY EXPRESS

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9/4/80

Daily Mirror

P2

Import blockade ruled out

THE Government has flatly rejected TUC demands for import controls to stem the flood of foreign goods into Britain.

Trade Secretary John Nott spelled out the tough line in a letter to TUC general secretary Len Murray.

Mr. Nott said that millions of jobs depended on overseas trade, and these could be lost if countries retaliated against British curbs.

He warned that import controls would:

DIVERT our exports back to the British market to satisfy home demand.

DEPRIVE our manufacturers of imported materials and components,

FUEL inflation by putting up prices,

RESTRICT customers' choice,

SHELTER inefficient firms by removing competition,

DRIVE the pound's value higher "and make life yet more difficult for our exporters."

Mr. Nott blamed some industries for failing to be "sufficiently competitive" to sell abroad.

He said: "Nowhere has this been more true than in the case of the motor industry, whose productivity has long been notoriously lower than that of our overseas competitors."

The Minister said that limited controls were already in force and could be used in "particularly difficult" areas. But a policy of "penetration ceilings" would be the wrong road for a major trading nation like Britain.

DAVID THOMPSON

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E 9 APR 1980

IMPORT CONTROLS REJECTED

By Our Business Correspondent

DEMANDS by the TUC for sweeping import controls and protection for "core" industries were firmly rejected yesterday by Mr Nott, Trade Secretary.

He said controls would make Britain's economic situation worse and invite damaging retaliatory action by other nations.

But he did not rule out limited protection in "difficult areas" such as textiles, where the Government has curbed imports of man-made fibres from the United States.

Mr Nott's comments were in a letter to Mr Len Murray, TUC general secretary, in reply to the TUC economic committee's call last month for ceilings on import levels and special protection for "core" industries such as cars and steel.

Reverse effect

He said import controls would treat the symptom of Britain's economic problems rather than the disease of low growth and high inflation. They would create distortions and bottlenecks and reduce efficiency.

British manufacturers would be deprived of supplies of imported equipments and materials. Controls would divert British exports back into the home market, put up prices, fuel inflation and limit consumer choice.

"The removal of the spur of competition would encourage complacency and shelter the inefficient rather than lead to modernisation and re-equipment."

Britain's share of world trade had been constant at about 9 per cent. over the last six to seven years despite increasing competition. "We are therefore particularly vulnerable to retaliation and have to be careful about setting an example in flouting trade obligations."

DAILY TELEGRAPH 2

MORNING STAR Wednesday April 9 1980 3

Nott says no import control protection

THE government yesterday made it clear it has no intention of introducing general import controls to protect British industry from foreign goods.

In a letter to the TUC general secretary Len Murray, Trade Secretary John Nott said the key factors behind Britain's trade deficit were low productivity and "disastrously high" inflation.

"Import controls would treat the symptom rather than the disease, and they would do so in a way which would be likely to make the situation worse."

Mr. Nott was replying to a demand from the TUC for general import controls and help for key industries like cars and steel.

But in Whitehall his letter, published yesterday, was also seen as the government's definitive response to widespread calls for import curbs.

Mr. Nott said that in many industries rising imports were caused by Britain's failure to be competitive.

"Nowhere has this been more true than in the case of the motor vehicle industry, whose productivity has long been notoriously lower than that of our overseas competitors."

Import controls would not improve performance but could lead to counter - measures against British vehicles and components.

Rejecting the plea for widespread controls, Mr. Nott said they would reduce efficiency by creating economic bottlenecks, deprive British firms of imported materials, divert our exports back into the home market, put up prices, restrict consumer choice, encourage complacency and shelter the inefficient.

Million of British jobs depended on our maintaining access to export markets, and we were particularly vulnerable to retaliation.

The Trade Secretary, whose letter was also on behalf of Industry Secretary Sir Keith Joseph, said he did not rule out limited controls in "particularly difficult" areas like textiles but more general controls were "very much the wrong road for a major trading nation."

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F-9 APR 1980

Government rejects TUC plea for import curbs to safeguard industries

By Derek Harris, Commercial Editor

In a wide-ranging statement which included a strong attack on the uncompetitiveness of the British car industry, the Government yesterday rejected TUC suggestions for greater use of import controls. The TUC has been pressing for controls to be brought into effect when agreed import ceilings for industrial sectors particularly at risk have been reached.

It would be "very much the wrong road" for an important trading nation such as Britain, Mr John Nott, Secretary of State for Trade, said in a letter to Mr Len Murray, the TUC General Secretary.

Mr Nott was replying on behalf of Sir Keith Joseph, Secretary of State for Industry, as well as his own department to a letter from Mr Murray earlier this month after the TUC Economic Committee had made a survey of industries badly affected by increased imports.

The TUC's suggestion that the problem of increasing car imports could be tackled by raising investment in British Leyland while imposing import protection brought a strongly worded rejoinder from Mr Nott.

Several industries were suffering from rising imports because of their failure to be sufficiently competitive and nowhere was that more true than with the motor vehicle industry.

Productivity in the motor industry had long been notoriously lower than that of overseas competitiors. He said: "The poor performance of this one sector significantly affects the overall trade figures. Indeed, if motor vehicles are excluded from the figures, the export/import ratio in 1979 deteriorated by only 1 per cent from its 1978 level."

While the Government had provided more investment funds to BL for this year the biggest concern was to improve productivity and performance in the sector as a whole.

He added this warning: "Import controls would not bring about the improvement in performance required but would certainly be likely to promote counter measures against some of our important overseas vehicle and component business —and our exports of components amounted to £1,700m in 1979."

The TUC had said that during last year imports of manufactured goods had increased by 16 per cent, which was 10 times the growth rate of manufactured exports. It suggested that import penetration ceilings, such as those established by some National Economic Development Office sector working parties, could be used to determine when import controls could be brought in, with selective government assistance also going to industries to help them make improvements to combat competition from imports.

Mr Nott said that import penetration was only a symptom of wider economic problems and import controls would treat only the symptom not the disease.

"Widespread controls would be bound to create distortions and bottlenecks in the economy which would reduce efficiency. They would deprive British manufacturers of supplies of imported equipment and materials on which success in the home and domestic market might depend."

But he did not rule out import controls in "limited and particularly difficult areas" and he believed strongly in vigorous action through the EEC against "dumped" or subsidized imports.

TIMES 17.

Len Murray's appeal for protection turned down

Nott rejects import controls

By Rod Chapman, Industrial Staff

The Government has turned down TUC appeals for generalised import controls—with the riposte that increasing import penetration is the result of British industry's failure to be sufficiently competitive or productive.

In a letter sent over Easter to the TUC general secretary, Mr Len Murray, the Trade Secretary, Mr John Nott, argues that "import controls would treat the symptom rather than the disease . . . in a way which would be likely to make the situation worse."

Mr Murray wrote to Mr Nott and the Industry Secretary, Sir Keith Joseph, after a meeting of the TUC Economic Committee last month, pointing out that many other countries do much more than Britain to protect domestic industry. The letter urged the government to impose import ceilings.

Mr Nott's reply singles out the British motor vehicle industry as a case where productivity has been "notoriously lower" than that of overseas competitors. If motor vehicles were excluded from Britain's overall trade figures, the export import ratio last year deteriorated by only 1 per cent from its 1978 level. However, import controls, in Mr Nott's view, would provoke international retaliation without benefiting home productivity.

The letter also points to the controversy over the British Steel Corporation's import of coking coal—and Mr Nott argues that to force BSC to rely entirely on British coking coal would push up BSC costs and make it less competitive. This would result in either increased import penetration and the loss of further jobs in the British steel industry or import controls which would increase the cost of steel to the manufacturing industry and thereby present an equal threat to jobs.

Mr Nott's answer to the TUC may be said to reflect the free trade line plugged consistently by his Department—which has come in for considerable criticism from the protectionist hawks in the Cabinet. But the reply is also made in the name of Sir Keith Joseph, whose Industry Department might be expected to take a more equivocal attitude.

The TUC is carrying out its own industry by industry survey of inport penetration, and claims that import controls must be used to help British industry modernise and adapt to the new technology which will make it competitive in the eighties.

A TUC delegation told Mr Nott before Easter that 80,000 to 100,000 workers in the textile, clothing and footwear industries could have lost their jobs by the end of the year in a crisis due largely to the influx of imports.

Mr Nott's letter offers the TUC certain palliatives: import controls in limited and particularly difficult areas (such as textiles) are still possible, and the Trade Secretary says he believes strongly in vigorous action through the EEC against imports that are subsidised or dumped. He also urges unionists to put forward any evidence they can assemble on trade barriers—which will be "actively pursued" under the new GATT codes by the Government.

GUARDIAN 16

10 DOWNING STREET

From the Press Secretary

22 April, 1980

Dear Mike,

I have seen your Secretary of State's excellent letter to Len Murray on import controls. It is surely worthy of a wider audience if it is possible to get it. Is there any objection to its publication - if you have not already made it public? Did Len Murray make his original letter of March 13 public?

I have the question of publication particularly in mind for briefing the Lobby and also because I am told a protectionist tide is running to the CBI which is worrying Dorothy Drake.

Could you please let me know soonest what the position is?

Yours sincerely
Bernard Ingham

B. INGHAM

Mike Garrod, Esq.

cc. Mr. Lankester
Mr. Gaffin

22/22/4

CONFIDENTIAL

file Trade

MR. WRIGHT,
CABINET OFFICE.

Non-Tariff Barriers and Restraints on Imports

The Prime Minister has read Sir Robert Armstrong's minute of 2 April, and has noted that the Chancellor and Sir Keith Joseph are proposing to hold an informal meeting to discuss non-tariff barriers shortly. She would like there to be a discussion in E Committee, not OD(E), in the light of the informal group's discussion.

T. P. LANKESTER

8 April 1980

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Ref: A01868

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MR. LANKESTER

In E – we should all like to participate MS.

Prime Minister
Agree last para?
TL 3/4

Non-Tariff Barriers and Restraints on Imports

In the discussion on trade policy which followed immediately on from the MISC 22 discussion on Rolls-Royce on 12th March, the Prime Minister asked Mr. Nott to prepare a paper for E dealing with trade policy and restraints on imports, including non-tariff barriers. This discussion had been sparked off by a recent letter from Sir Michael Edwardes asking inter alia if a national scheme for type-approval of commercial vehicles might be introduced, largely to act as a barrier to imports.

2. Sir Keith Joseph has separately written to the Chancellor proposing the creation of non-tariff barriers in five areas, including commercial vehicles. This is in response to an invitation from an informal group of Ministers which met under the Chancellor's chairmanship in January. The present plan is for this to be discussed at a subsequent meeting of the same informal group shortly after Easter at which, in addition to the Chancellor and Sir Keith Joseph, Mr. Nott, Mr. Prior and an FCO Ministers would also be present. Mr. Nott is proposing to circulate for discussion at the same meeting a paper on the question of alleged unfair export practices by other Community members, as well as what can be done to counter other members' non-tariff barriers. This paper is therefore likely to cover much the same ground as the paper the Prime Minister asked Mr. Nott to prepare for E.

3. The question arises whether, in the light of the Prime Minister's request, the next step after discussion in the Chancellor's informal group should be a discussion in OD(E) as the Lord Privy Seal had recently suggested, or in E itself. On balance, I would suggest the former, mainly because most of the issues raised either concern the Community directly or have important Community implications. I suggest, however, that the Foreign and Commonwealth Secretary might be asked to report OD(E)'s conclusions to the Prime Minister, so that the possibility of a discussion in E could, if necessary, be reconsidered in the light of OD(E)'s conclusions.

RTA

2nd April 1980

(Robert Armstrong)

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