


Confidential Filing

Multilateral Trade Negotiations

TRADE

May 1979

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 <p>PREM 19/2551</p>							



SECRETARY OF STATE FOR ENERGY

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The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign &
Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
LONDON
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copy
20/11

19th November 1987

Dear Geoffrey,

EC/GULF CO-OPERATION AGREEMENT

I read with interest David Young's letter of 9 November to you and your reply of 13 November. I fully agree with the points he made.

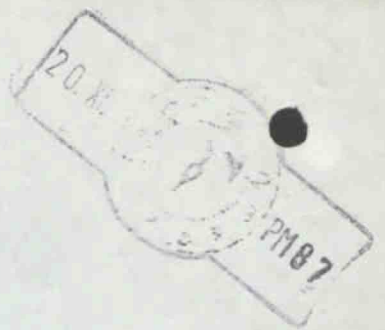
I saw Mr Nazer, the Saudi Oil Minister, at his request on Monday. The main matter he sought to press was the need for speedy negotiations between the Community and the Gulf Co-operation Council to reach a free trade agreement. He left me in no doubt that the Saudis would regard progress on that matter as the test of how seriously the Community takes the liberalisation of trade with the Gulf in refined oil products. I was left with the impression that there will be determined resistance to any negotiating mandate which does not point to an early free trade agreement with the Gulf.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry and Defence, the Minister for Agriculture and Sir Robert Armstrong.

Yours truly,
Cecil

CECIL PARKINSON

TRADE: Multilateral
Negotiations ♣
May 79



CONFIDENTIAL



FCS/87/230

Secretary of State for Trade and Industry

EC/Gulf Cooperation Agreement

1. Thank you for your letter of 9 November. I entirely share your approach.
2. You are right to draw attention to the difficulties which a Free Trade Agreement with the GCC would pose. We shall clearly have to make sure that full account is taken of them as the Community position on the negotiations develops. But, at the same time, your approach gives us the flexibility we need to avoid isolation and being singled out by the GCC and our partners as the stumbling block to progress.
3. In the light of your letter, my officials (in consultation with yours) prepared instructions for Sir David Hannay asking him to make clear at Coreper on 12 November that we are now prepared to accept the Commission proposal as it stands (pointing out of course that a FTA is not the only possible outcome). While we have also given him discretion to agree to a German proposal that negotiations on a second stage should start on signature of the first stage of the Agreement, we think it would be premature to indicate now that we could accept doing away with the first stage altogether. I enclose a copy of the Instructions telegram.
4. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Defence, the Minister for Agriculture, the Secretary of State for Energy and Sir Robert Armstrong.

Foreign and Commonwealth Office

(GEOFFREY HOWE)

13 November 1987

CONFIDENTIAL

OUT TELEGRAM

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
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ZCZC 1 ZCZC
 TC 2 CONFIDENTIAL
 CAVEAT 3
 FM 4 FM FCO
 TO 5 TO IMMEDIATE UKRep BRUSSELS
 TELNO 6 TELNO
 OF 7 OF 111730Z NOVEMBER 87
 AND TO 8 INFO PRIORITY EC POSTS AND GULF POSTS

9
 10
 11 COREPER, 12 NOVEMBER: EC/GCC
 12
 13 1. You should not take the lead in discussion. If, however,
 14 there is growing consensus on the Commission proposal, you should
 15 take the following line:
 16
 17 - Ministers have examined this issue closely again in the light
 18 of the last FAC.
 19
 20 - As you know, we broadly share the approach in the Commission
 21 proposal. But we have felt it important to allow for a
 22 reasonable period of time to see how the arrangements in the
 23 first stage work before reviewing them. This seemed only
 24 sensible.
 25
 26 - However, we recognise that many member states do not feel this
 27 necessary. We have also noted the strength of GCC opposition to
 28 an initial period of any length.
 29
 30

		Date/time	- We
File number MH6ACI	Dept ECD(E)	Drafted by (B.C. capitals) M A HATFULL	Telephone no 270 2294
Authorised for despatch by	Initials <i>MAH</i>	Date/time 11/11 17.50	
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OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
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1 <<<<

2 - We are therefore prepared to accept the Commission proposal as
 3 it stands.

4

5 - We note that the text cites a FTA as only one of the possible
 6 types of agreement that might be negotiated as a second stage.
 7 We continue to attach importance to leaving the options entirely
 8 open at this stage, and would prefer to see the reference to a
 9 FTA deleted.

10

11 - We have doubts about the economic wisdom of a FTA between the
 12 EC and the GCC. We are not sure that a genuine FTA would prove
 13 negotiable, given the need for reciprocal obligations and thus
 14 the real limits to the Infant Industry Protection we could allow
 15 the GCC. We remain to be convinced that the necessary protection
 16 for the Community petrochemicals and other sensitive industries
 17 could be provided within a FTA. We could also face difficulties
 18 with third countries exploiting the FTA as a back door to the
 19 Community market.

20

21 - Of course, all these difficulties will have to be faced
 22 whatever kind of second phase is envisaged. The Community will
 23 therefore need to consider the options and their implications
 24 thoroughly before any discussion with the Gulf. See important
 25 role for 113 Committee in considering detailed technical issues.

26

27 (If no consensus on removing reference to FTA in Commission
 28 proposal)

29

30 - Can accept wording as it stands, noting that FTA is only cited
 31 as one example.

32

33 (If general support for German proposal that negotiations on
 34 second phase should start on signature of first agreement)

For distribution order see Page Catchword - Can

OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
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1 <<<<

2 - Can agree to this, on basis that they are without prejudice to
3 eventual form of agreement, and subject to comments above about
4 need for full discussion within Community taking account of the
5 difficulties presented by more far-reaching trade agreement.

6
7 2. If it becomes clear that there is no consensus on the
8 Commission proposal and eg French suggest immediate opening of
9 comprehensive negotiations on trade agreement, you should say
10 that you have no instructions at this stage. We should need
11 to gauge accurately the strength of support for such an option
12 before considering any further adjustment of our position.

13
14 3. You are already taking action with the Commission on the
15 question of selective safeguards and standstill.

16
17 HOWE

18
19
20 YYYY

21 MAIN

22 Frame External

23 ECD(E)

24 MED

25 ESSD

26 PS

27 PS/Mrs Chalker

28 PS/Mr Mellor

29 Mr Kerr

30 Sir D Miers

31
32 ADDITIONAL

33
34 Mr Roberts, DTI

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Caterword

Mr Hutton

OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
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<<<<

- 1 <<<<
- 2 Mr Hutton, DTI
- 3 Mr Flynn, ITP2, DTI
- 4 Mr Clarke, CTPS, DTI
- 5 Mr Dixon, OT4, DTI
- 6 Ms Beaton, Dept of Energy
- 7 Mr Freemantle, Dept of Energy
- 8 Mr Alty, Cabinet Office
- 9 Miss Preston, HM Treasury

10

11 NNNN

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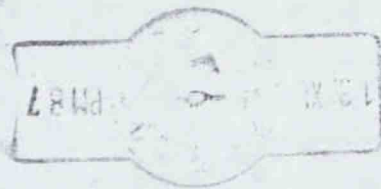
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Trade Multi-lateral Trade Negotiations

May 79



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cc PK



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Secretary of State for Trade and Industry

CONFIDENTIAL

9 November 1987

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

CDD
9/11/87

EC/GULF COOPERATION AGREEMENT

After Cheysson's maladroit attempt at the October FAC to change the Commission's draft negotiating mandate, the issue of EC/Gulf cooperation will again be on the agenda for the Council on 23/24 November. We have been examining what our line should then be, reflecting the important industrial and trade interests at stake. In coming to conclusions, we have taken into account the views expressed by Stephen Egerton and Sir David Hannay in Telegrams 509 and 3391 from Riyadh and Brussels respectively.

Part of the difficulty which we and other member states face is that there has only been very limited discussion of what a Free Trade Agreement (FTA) with the Gulf would mean and how and indeed whether the underlying problems could be overcome. Some are identified in general terms in the proposals; put more bluntly the essential questions are:

- (a) How far are we ready to insist that any concessions on duties on petrochemicals must be on a multilateral basis?
- (b) What degree of safeguard protection is the EC prepared to demand for its petrochemical and indeed other sensitive industries?



- (c) What limitations are we prepared to place on the Gulf's discretion to exempt 'infant industries' from the terms of any Agreement?
- (d) How can we prevent third countries, especially the Far East producers, from exploiting an FTA as a back door to the EC market?

Other issues which have not yet been faced by the Commission are how to deal with likely US objections and the Arab Boycott. On the latter, it will not just be the Commission, of course, which is subject to intensive lobbying by Israel and its supporters.

Because of the lack of preparation and the uncertainty whether an FTA is negotiable, our proposal that the second stage in the Commission's negotiating plan should be open ended and should not start for at least 5 years made good sense. It would have given time for proper consideration and for an attempt to be made to find a multilateral basis for concessions on petrochemicals. It is perhaps even possible that the Gulf might have been persuaded to accept an MFN arrangement as the best long term solution. I have to accept, however, that we cannot now expect to achieve these objectives.

The best fallback position is, as David Hannay suggests, to accept the Commission's mandate. That would still entitle us to point out that an FTA does not thereby become the only possible outcome. And we must surely be entitled also, well before the second stage of negotiations, to insist that the Commission should put detailed proposals to the 113 Committee on how it will be possible to overcome the problems and protect satisfactorily the Community's interests. I would hope that a number of other member states would share our anxieties in that respect.

I remain concerned, however, that the effect of endorsing the Commission's proposals will be to reduce the period between the first and second stages to a minimum. And it is only too conceivable that having opened discussions, the Commission will come back and say, quoting the Saudi's known views, that no useful purpose will be served by negotiating a notional first stage and discussions should begin immediately for an FTA. We know that Cheysson, having been thwarted so far in his headlong rush by the other Commissioners, would not be adverse to such an outcome. The Presidency would be sympathetic. Martin Bangemann is keen to make a political gesture and most of the other member states do not like to be seen opposing Saudi wishes.



If we cannot head off such an initiative and if there is substantial support for dropping the first stage, we must then switch our efforts into ensuring that the negotiations are properly managed and conducted. First, it may still be possible to prevent any prior commitment that the outcome has necessarily to be an FTA. Secondly, the new circumstances should allow us to demand that negotiations should not begin without full and careful preparation in the 113 Committee to enable a detailed mandate to be agreed by the Council. And thirdly, it would then be in our interests to support French proposals for a generous transitional period before any agreement came fully into effect. We may be able to insist upon these as conditions for our support.

I believe that the strategy outlined above is consistent with the approach we have previously adopted. We still believe that an FTA is not the most suitable framework for conducting our trade with the Gulf. If such a outcome does become unavoidable, we must take all possible steps to protect our interests.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Defence, the Minister for Agriculture, the Secretary of State for Energy and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Lord Young of Graffham', written in a cursive style.

LORD YOUNG OF GRAFFHAM

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Trade



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1 VICTORIA STREET
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From the
Minister ~~of State~~
for Trade's Office

f: *Hand* - 17/x

The Private Secretary to
The Prime Minister
10 Downing Street
London
SW1

17 October 1979

Dear Private Secretary,

WHITE PAPER ON THE GATT MULTILATERAL TRADE NEGOTIATIONS

Following my Minister's letter of 21 September to the Foreign Secretary, members of the OD(E) Committee have agreed to the principle of the publication of a white paper on the GATT Multilateral Trade Negotiations, and cleared its text by correspondence. I wrote to you about this on 8 October, and you have agreed to the proposed publication date of 18 October.

As is customary, I now enclose a copy of the Confidential Final Revise of the white paper which is to be published.

I am copying this letter, together with a copy of the Confidential Final Revise of the white paper, to the Private Secretaries to the members of the Cabinet, and to Martin Vile.

Yours Sincerely,
Vivien Thackeray

VIVIEN THACKERAY
Private Secretary to the Minister
for Trade (CECIL PARKINSON)

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CONFIDENTIAL—FINAL REVISE

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General Agreement on Tariffs and Trade

The Multilateral Trade Negotiations 1973-79

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Introduction

1. The Tokyo Round of multilateral trade negotiations was launched by a declaration of Ministers from about one hundred countries meeting in Tokyo on 12-14 September 1973 under the auspices of the General Agreement on Tariffs and Trade (GATT). The six previous GATT negotiating rounds which have been held since 1947 have been mainly concerned with the reduction of tariffs on a reciprocal basis. The most recent, the Kennedy Round¹ (1964-67) also reached agreements relating to certain non-tariff barriers to trade.

2. The Tokyo Round has a broader scope than these. In addition to negotiating about tariffs, the participants placed major emphasis on reaching agreements on non-tariff measures which restrict or distort international trade, and which have assumed greater importance as tariff barriers have become lower. The negotiations were conducted during a period of difficult economic circumstances, which many feared would lead to an increase in the restrictions placed by governments on international trade.

3. The Government welcomes the successful conclusion of the negotiations, now in their final stages. As well as providing for important further reductions in tariffs, the negotiated agreements also establish new procedures to enable nations to resolve the difficult issues in their trading relations which must be solved if world trade is to prosper in the 1980s. The Government will support, at an appropriate time, a formal decision to enter into the agreements by the Council of Ministers of the European Communities. The United States has already passed its necessary implementing legislation, with the signature of the Trade Agreements Act 1979 by President Carter on 26 July. The other major developed countries are expected to ratify. The position of the developing countries is still uncertain; the Government hopes that many of them will support the outcome, in recognition of the interest of both developed and developing countries in strengthening the open system of international trade.

Objectives

4. The objectives of the negotiations were set out in the declaration agreed at the Ministerial meeting in Tokyo. They were, first, to achieve the expansion and further liberalization of world trade through the progressive dismantling of obstacles to trade on a reciprocal basis, and the improvement of the international framework for its conduct. Secondly, the negotiations aimed to secure additional benefits for the international trade of developing countries. It was envisaged that special and more favourable treatment would be accorded to them in areas of the negotiations where this was feasible and appropriate.

5. To this end, the negotiations aimed, in particular, to:

- (a) reduce tariffs by the employment of appropriate formulae of as general an application as possible;
- (b) reduce or eliminate the effects of non-tariff barriers to trade;
- (c) examine the possibilities for agreements to reduce or eliminate barriers to trade in particular economic sectors (the 'sector' approach);

¹ *The Kennedy Round of Trade Negotiations 1964-67* (Cmnd 3347).

- (d) examine the adequacy of the multilateral safeguards system;
- (e) include agriculture within the negotiations while taking account of the special characteristics of this sector;
- (f) treat tropical products as a special and priority sector.

The Negotiations

6. At the outset, a Trade Negotiations Committee was formed to supervise the negotiations. The Committee was composed of all the 99 countries participating in the round, including some countries not in membership of GATT. The members of the Committee in April 1979 are listed in Annex 1. Under the Committee, seven negotiating groups were set up: on tariffs; on non-tariff barriers to trade (with sub-groups on quantitative restrictions, technical barriers to trade, customs matters, government procurement and subsidies and countervailing duties); on agriculture; on the 'sector' approach; on tropical products; on safeguards; and on the improvement of the framework for the conduct of international trade. The membership of these groups was drawn from both developing and developed countries. Substantial bilateral bargaining also took place where necessary, for example on tariffs. In accordance with the Treaty of Rome, the Commission negotiated on behalf of the European Community, under the direction of the Council of Ministers and in frequent consultation with member states.

7. The negotiations started only slowly, as it took some time for the US Congress to pass the Trade Act giving the US Administration authority to negotiate, and it took the EEC some time to agree a negotiating mandate. The 1976 US presidential election then intervened. As a result, the negotiations could not make any decisive progress until 1977. They came to a head in 1978 and early 1979, culminating in a meeting of the Trade Negotiations Committee on 11-12 April 1979 and the opening for signature on 12 April of a *procès verbal* recording the main results. After some further adjustments to the tariff offers, a tariff protocol was opened for signature on 11 July. Negotiators from the main developed participants in the round have signed the *procès verbal* and the tariff protocol, though by the beginning of October 1979 only one developing country had done so.

Results

Scope

8. Agreements have been negotiated on tariff reductions; on the reduction of tariff and other barriers to trade in agriculture; on trade in beef and dairy products; on the reduction of barriers to trade in aircraft; on subsidies and countervailing duties; on customs valuation methods; on technical barriers to trade; on government purchasing; on import licensing procedures; on the updating of the existing anti-dumping code and on the framework for international trade. An agreement on discouraging trade in counterfeit goods is in draft. The texts of the various multilateral agreements accepted by negotiators from developed countries are being published in separate Command papers,

and in Annex 2. The schedules of tariff concessions annexed to the tariff protocol are being published by the GATT Secretariat^{1, 2}.

9. The paragraphs which follow give a summary of the agreements concerned. They also describe the position reached at the beginning of October 1979 in respect of certain outstanding points still under consideration. The agreements are to come into force on 1 January 1980 except where otherwise specified.

Industrial Tariffs

10. The main developed countries are to reduce tariffs substantially, by rather under a third on average on a reciprocal basis, over an eight-year period. The negotiators from the main developed countries proceeded by adopting a tariff-cutting formula, the so-called 'Swiss' formula³, under which high tariffs are cut proportionately more than low ones. This increases the extent to which the tariffs of different countries are brought into alignment. Within this general framework, negotiators made a number of partial or full exceptions to the general formula for the benefit of industries particularly vulnerable to import competition.

Bilateral Negotiations

11. The Community's main completed agreements on industrial tariffs lie with the United States, Japan and Canada, and (at a lower level of concession) with Australia and New Zealand. Most of the UK's trade in manufactured goods with countries within the European Free Trade Association (EFTA) is already conducted free of duty under the EEC/EFTA free trade agreements, and the remaining restrictions were not a matter for negotiation in these negotiations. Full reciprocity was not expected from developing countries: the more advanced of the developing countries were, however, expected to make some concessions, and discussions with them are continuing in October 1979 (see paragraph 67).

12. *The United States* imposes a number of high tariff rates of 20 per cent and more, mainly on textile and chemical products. As described in paragraphs 17-20, she is to make valuable reductions in her high chemical tariffs and in some (though not all) of her high textile tariffs. Other US tariff reductions on products of interest to UK exporters include, for example, bone china householdware (17.5 per cent tariff to be reduced to 8 per cent); antibiotics (5 per cent to 3.7 per cent), compression ignition engines (5 per cent to 3.7 per cent); earth-moving equipment (5 per cent to 2.5 per cent); furniture (10 per cent to 4 per cent) and toys and parts (17.5 per cent to 7 per cent). On average, the US

¹ Copies of the schedules of tariff concessions have been placed in the libraries of both Houses of Parliament, and the Department of Trade will be able to answer detailed enquiries about them.

² It is envisaged that a supplementary tariff protocol will be necessary to record the outcome of further discussions currently in progress between certain developed and certain developing participants in the Tokyo Round (see paragraph 67).

³ The formula adopted by the US and Japan is that the bound tariff rate to be offered is $14x/14+x$, where x is the current bound tariff rate (expressed in percentage points). The Community adopted the related formula $16x/16+x$. Under the Community version of the formula, a 5 per cent tariff for example will be reduced to 3.8 per cent, an 8 per cent tariff to 5.3 per cent and a 12 per cent tariff to 6.9 per cent.

has agreed to reduce her tariffs against EEC exports (on a trade-weighted basis)¹ by around 30 per cent.

13. Japan's effective tariff level on industrial imports is on average lower than that of the Community, and she made a number of exceptions to her tariff offer in sensitive industrial sectors—notably textiles, clothing and footwear. However, she is to make a substantial number of tariff reductions of interest to the UK. Examples are penicillin medicaments (10.5 per cent tariff to be reduced to 5.8 per cent); other medicaments (8 per cent to 5.8 per cent); reactive dyes (10 per cent to 6.6 per cent); certain automatic data processing machines (10.5 per cent to 4.9 per cent); certain other types of computer equipment (17.5 per cent to 6 per cent); and certain sports equipment (8 per cent to 4.8 per cent). On a trade-weighted basis, Japan has agreed to cut its effective tariffs against Community exports by an average of about 25 per cent².

14. Canada offered to reduce her tariffs against the Community's industrial exports by around 30 per cent on average. Examples include wallpaper (15 per cent tariff to be reduced to 7.5 per cent), certain types of glassware (15 per cent to 11.3 per cent), and records (15 per cent to 11.3 per cent). The Canadian tariff concessions inevitably mean some erosion in the remaining UK preferences in this market (which Canada has in any case stated that she is phasing out). The agreements reached with Australia and New Zealand are at a relatively modest level of concession, reflecting the modest level of concession which the Community can offer on the agricultural products of interest to those countries.

15. The EEC in return offered to cut its tariffs on a range of products by the amount required by the standard tariff-cutting formula. Examples include some chemicals (eg pharmaceuticals), non-electric machinery, scientific and medical instruments, furniture and a range of miscellaneous manufactured products. On the other hand, cuts of less than the size required by the standard formula were offered on a range of products which are most vulnerable to import competition. Examples of products where no tariff cut is to be made, or cuts are limited to one or two percentage points on substantial tariffs, include fertilisers; iron and steel pipes and tubes; special steels; colour television sets; semi-conductors and microcircuits; heavy lorries; motor cars; footwear; and cutlery. Taking these exceptions into account the Community is to reduce its tariff from an average trade weighted level of 9.8 per cent to an average level of 7.5 per cent. The trade-weighted average cut on tariffs against imports from the US is about 30 per cent, and the trade-weighted average cut against imports from Japan about 20 per cent.

16. The Community's tariff negotiations with Japan were concluded at a relatively modest level of reduction in effective tariffs. The tariff agreement

¹ Here and elsewhere, statistics for average tariff reductions are calculated on a trade-weighted basis, using 1976 trade volumes as a basis. (1976 was taken as the basis year for the negotiations, and statistics relating to later years are not generally available.)

² Exceptionally among the main developed countries Japan has reduced many of her effective tariff rates to below the GATT 'bound' rates which she is entitled to charge. This means that the cut in Japan's bound rates will be substantially greater than the 25 per cent average cut offered on her effective rates. It also implies that many of the cuts in Japan's effective rates could start later than the cuts offered by other participants in the round. Japan may, however, be prepared to start on about the same date as other countries; the issue is still under discussion.

with the United States was at a more ambitious level of mutual concession and involved some difficult negotiations particularly over the paper, textiles and chemical sectors.

Textiles

17. The textile tariff cuts to be made by the US and the Community are generally less than those which would result from the application of the standard tariff-cutting formula. The Community's concessions include those on synthetic fabrics, where tariffs of 13–16 per cent are to be reduced to 10–11 per cent, cotton fabrics where 13–15 per cent tariffs are to be reduced to 10 per cent, and tufted carpets, where a 23 per cent tariff is to be reduced to 14 per cent. The US is (*inter alia*) to make reductions in her synthetic textile tariffs, and valuable reductions in her high tariffs on most wool textile products of interest to the UK. For example, the tariffs on various types of wool sweater are to be reduced from 24–25 per cent to 17 per cent, and cashmere sweaters from about 16½ per cent to 7½ per cent; and the tariff on woven woollen cloth valued at over nine dollars per pound is to be reduced from 44.4 per cent *ad valorem* equivalent to 33 per cent¹. The tariff changes by the US and the Community should reduce, but not eliminate, the difference between the average levels of the Community and the generally higher US tariffs on textiles and clothing.

18. To help meet the concern of Community producers about increased competition in the synthetic sector, the EEC Council of Ministers has declared that, in the event that artificial differences in energy and feed-stock prices available to world synthetic fibre producers threaten disruption to the Community market for textiles, they will have recourse without delay to the appropriate provisions of the GATT. With the full support of the Government, the Commission has been carrying out a study of this matter to establish the facts, and is entering into discussions with the US administration. In addition, the Community has reserved its right to withdraw its textile tariff concessions in the absence of a mutually acceptable arrangement regarding international trade in textiles. This relates to the continuance of acceptable arrangements after the present Multi-Fibre Arrangement expires at the end of 1981, and parallels a similar reservation in the US textile offer.

Chemicals

19. The Community offered formula reductions in the tariffs on a range of chemical products including many pharmaceuticals. A complete exception from tariff cuts has been made for most fertilisers and some important dyestuffs, and less than formula cuts have been agreed for plastics. The US has agreed to abolish the American Selling Price (ASP) system², which applies at present to benzenoid chemicals and which leads to high tariff rates of over 40 per cent in some instances. As a consequence of this and cuts in nominal tariff rates, the US are to reduce virtually all their tariff rates on benzenoid chemicals to 20 per cent or less. There are specially negotiated rates (below 20 per cent) for various types of so-called 'future' benzenoid products, not yet marketed. The US is to make formula cuts, with some exceptions, in the tariffs on chemicals other than benzenoid chemicals.

¹ US tariff rates are quoted as *ad valorem* equivalents based on 1976 figures.

² See paragraph 39.

20. This outcome achieves a major Community objective in securing abolition of the ASP system, and a substantial reduction in the high chemical tariffs. The cuts in benzenoid chemical tariffs should start to take effect from 1 July 1980, the date agreed for the entry into force of the Customs Valuation Agreement in the United States.

Paper

21. The Community's initial offer provided for cuts of less than those required by the standard tariff-cutting formula on most paper products, and offered no reduction on kraft paper and board. Towards the end of the negotiations, the Community conceded, however, a cut in the tariff on most types of kraft paper and board from 8 per cent to 6 per cent. This represents a substantial concession though still less than a standard formula cut. In agreeing to the concession as part of the total package the EEC Council of Ministers insisted on a delayed implementation so that tariff reductions on kraft paper and board will not start until 1983. In addition the Commission gave assurances that they would pursue a vigorous anti-dumping policy for the paper sector to ensure that major foreign producers do not off-load part of their production on to the Community market at marginal prices below their domestic price or their normal costs.

Staging of Tariff Cuts

22. Most of the cuts in industrial tariffs will be implemented in eight equal annual stages between 1 January 1980 and 1 January 1987. Participants in the negotiations have, however, agreed a number of exceptions. For the Community, certain sensitive tariff cuts will not start until 1982; these are on steel, textiles (other than silk), ceramic products, titanium and a few chemical products¹. The Community has reserved its right to stop the tariff cuts after five stages in 1984 without proceeding to the last three stages, if it judges that the economic or other circumstances at the time require this.

Agriculture

23. Agreement has been reached on multilateral arrangements relating to dairy products and beef. The arrangements provide for continuing consultation between signatory countries on developments in the world market for those products. Additionally, the arrangement for dairy products contains minimum price agreements for milk and skim milk powder, butter, butter oil and cheese. The Agriculture Negotiating Group has recommended the development of active co-operation in the agricultural sector within an appropriate consultative framework; the detailed terms of reference for this are to be the subject of further discussion.

24. The Community has agreed to reduce tariffs on a range of food and agricultural products, many of them in the fresh fruit and vegetable sectors; on bourbon whisky and tobacco; and on certain types of fish, eg cod and salmon. The Community has agreed to improve access for third country supplies of beef, notably by increasing the annual tariff quota for frozen beef from 38,500 tonnes to 50,000 tonnes, and opening an annual quota for 21,000 tonnes of special cuts of high quality beef from the USA, Australia, Argentina

¹ This is in addition to the delayed staging in respect of kraft paper and board noted in paragraph 21.

Uruguay. The Community has also made concessions on cheese by opening quotas at reduced levies for a total of 15,250 tonnes from New Zealand, Australia and Canada.

25. Other main participants in the negotiations have for their part agreed to important concessions of value to UK exporters. The US has agreed to abolish the wine gallon method of tax assessment (whereby their imports of bottled whisky pay extra tax) while the Canadian Provincial Liquor Boards have agreed to give undertakings about their practices affecting imports of spirits. Both countries have agreed to make substantial reductions on the tariff on whisky and in the case of Canada on gin, rum and liqueurs.

26. The US, Canada and Australia have agreed to improve access for Community cheese. The USA has agreed to operate its import system for fresh, chilled or frozen beef so as to allow access for 5,000 tonnes of beef from those Community states which it regards as being free from foot and mouth disease. New Zealand has agreed to some liberalisation of its import quota system for certain food products. Other tariff reductions by third countries of particular interest to the UK includes sardines, biscuits and citrus juices (New Zealand), chocolate confectionery and biscuits (Japan), cocoa powder, chocolate preparations and biscuits (Canada), biscuits, cakes and pastry (South Africa) and Stilton cheese and sugar confectionery (Australia).

27. Most of the agricultural concessions between the Community and other negotiating parties will be introduced gradually over an eight-year period beginning 1 January 1980. Some of the concessions, mainly relating to non-tariff barriers, will, however, be introduced in full on 1 January 1980.

28. The Community's tariff concessions on agricultural products, though not as large or wide ranging as the Government would have wished, will nevertheless be of benefit to UK consumers. The exchange of concessions on agriculture provides some recognition by the major trading nations of the need to keep open their markets for agricultural products, and the concessions on whisky in particular will be valuable to UK exporters. The outcome for Australia and New Zealand has undoubtedly fallen well short of their hopes; even the relatively modest concessions over access which the Community were prepared to make were agreed only with considerable difficulty for a number of Member States. However, Australia and New Zealand have recognised that the concessions are of value to them; and these countries can also expect, as a result of the agreements reached in the negotiations, that the Community will have a greater regard in future to the effects of their use of agricultural export subsidies on the agricultural exports of other countries.

Civil Aircraft

29. This agreement is concerned with tariffs and other matters affecting international trade in civil aircraft.

30. Signatories to the agreement undertake to reduce their tariffs on aircraft, aero-engines and some aircraft equipment to zero on 1 January 1980. They note that the agreement on subsidies and countervailing duties applies to trade in aircraft, while also undertaking to take account of the special factors that apply to this sector, in particular the widespread government support it enjoys.

Limitation is placed on the extent to which governments may influence airline purchasing decisions, and on the type of offset arrangements which may be made. Signatories also agree not to offer inducements in connection with the sale or purchase of aircraft, which would create discrimination against suppliers from any other signatory country.

31. The agreement provides for the establishment of a Committee on Trade in Civil Aircraft. This will provide a forum for consultation between signatories on matters relating to the operation of the agreement and facilitate the resolution of any difficulties which may arise.

32. The aircraft agreement is designed to promote fair practice in the supply of civil aircraft, while recognising the special factors which apply to this sector. The elimination of tariffs should assist UK aero-space exports while not affecting the Community's tariff on large aircraft which is already suspended at zero.

Subsidies and countervailing duties

33. This agreement elaborates the existing provisions of the GATT dealing with subsidies and countervailing duties.

34. GATT rules have always allowed the imposition of a countervailing duty against imported products where it can be shown that they have benefited from a subsidy, and that they are causing or threatening material injury to domestic industry as a consequence. The agreement defines in more detail the procedures which must be followed and factors to be considered before a countervailing duty can be imposed. As an alternative to imposing countervailing duties, the importing country may accept an undertaking that the subsidy will be eliminated or limited, or that the exporter will increase his prices to eliminate the injurious effect of the subsidy.

35. Signatories to the agreement recognise that subsidies are used to promote important objectives of social and economic policy, but also that subsidies may cause adverse effects for the interests of other countries; and signatories undertake to seek to avoid causing such effects. There is provision for consultation and the settlement of disputes by a Committee composed of the parties to the agreement. This Committee may authorise the taking of counter-measures other than countervailing action when a signatory's rights have been infringed.

36. In accordance with Article XVI of the GATT, developed countries undertake not to grant export subsidies (except that export subsidies for primary products are permitted in certain circumstances). The Illustrative List of Export Subsidies drawn up in 1960 has been brought up to date; it lists prohibited practices such as (*inter alia*) direct tax concessions for exporters, favourable transport and freight charges on export shipments, as well as direct subsidies to a firm dependent on its export performance. None of the UK's existing export promotion schemes should be affected.

37. A major point is that the agreement requires all its signatories to accept the 'material injury' criterion for countervailing action and the need for a

usual link between the subsidy and the injury¹. Accordingly, signatories undertake not to impose countervailing duties unless it can be demonstrated that a domestic industry is being materially injured by subsidised imports as a consequence of the effects of the subsidy. In the Government's view, the agreement offers considerable advantage provided that the requirement for the more uniform application of these criteria than hitherto is observed.

Anti-Dumping

38. The existing GATT Anti-Dumping Agreement, which dates from 1968, has been revised so as to bring its provisions into line with those of the Subsidies and Countervailing Agreement. The new Anti-Dumping Agreement contains revisions which clarify a number of areas of difficulty which have emerged following experience of operating the existing version. An important aim will be that the new agreement should be implemented in a uniform way by all signatories, so as to lead, in particular, to a normalisation of American anti-dumping procedures. The Community's own ability to take anti-dumping action will be unimpaired.

Customs Valuation

39. The Customs Valuation Agreement provides for greater uniformity in the methods of arriving at the value on which *ad valorem* duties are based. The charging of duty on an artificially inflated value restricts trade, as it means that the importer pays more duty than he should. The agreement aims at eliminating this practice and minimising the scope for the arbitrary valuation of imported goods by customs officials such as now occurs in some foreign countries. The agreement ends the United States 'American Selling Price' (ASP) system under which the duty on certain goods is assessed, not on their landed value, but on the (higher) actual selling price within the USA of similar goods produced there.

40. Under the agreement the value normally used for assessing duty on imported goods will be the price paid or payable for those goods. A number of other methods have been specified, eg the value of identical or similar goods, but these will be applied in a strict order of precedence. Only where the first method has been shown to be inappropriate may the country concerned go on to the next method. As a result, exporters and importers should know with greater assurance the duties to which they will be liable in trade to some foreign markets. The agreement is to be administered at the policy-making level by the Committee on Customs Valuation (composed of the parties to the agreement) and at the technical level by the Customs Co-operation Council. There are provisions for consultation and for the settlement of disputes by the Committee on Customs Valuation assisted if necessary by the Technical Committee and/or a panel. The agreement is to come into operation on 1 January 1981. Exceptionally the European Economic Community and the USA are to implement the agreement from 1 July 1980 as part of a bilateral deal to end the ASP system.

¹ The USA had not in the past applied these two criteria, although the potentially damaging effects of this on exports to the USA have been partly masked in recent years by a discretion which Congress granted to the Administration not to take countervailing actions while the Tokyo Round was in progress. The US is now to be committed by the agreement to observance of these criteria. In view of the fact that there is a lack of clarity on some points in the US implementing legislation the EEC Council of Ministers has emphasized to the United States Government the importance of full implementation of the agreement's provisions.

41. Some developing countries have certain reservations about the main text and have tabled an alternative version. Further negotiation is taking place aimed at producing an agreed single text.

Technical Barriers to Trade

42. The Agreement on Technical Barriers to Trade is designed to reduce obstacles to trade that result from the preparation, adoption, and application of product standards and certification systems (whether mandatory or voluntary). The agreement encourages the use of appropriate existing international standards when a new or revised domestic standard or technical regulation is being drafted. Whenever use of an existing international standard is not appropriate, or when no international standard exists, open procedures must be followed during the formulation of standards and certification systems. The procedures include publishing proposed measures, affording an opportunity to make comments, and taking such comments into account. The agreement, however, takes account of the right of countries to adopt appropriate standards to protect health, safety, or the environment.

43. Standards and certification systems promulgated by central government bodies are subject to the agreement's requirements. Signatories undertake obligations in respect of state, local government and other standardising bodies in their territories. As the agreement's provisions apply to new and revised standards and certification systems, implementation will not involve changes in existing regulations. Nonetheless, if a signatory believes that an existing measure conflicts with the obligations imposed by the agreement, it may raise the matter in the agreement's committee of signatories and use the agreement's dispute settlement mechanism (described in paragraphs 59-60) to seek a mutually satisfactory solution.

44. The Community has stressed the importance it attaches to securing reciprocity in the application of the agreement, particularly in respect of access to certification systems, so that a balance of economic benefit is achieved for each party. The agreement should make it easier for exporters to identify the regulations with which they must comply in order to export to overseas markets, and is designed to lead in the medium term to a reduction in the problems these can cause.

Government Procurement

45. The Agreement on Government Procurement which is to come into force on 1 January 1981 aims to make the purchasing of each signatory government more accessible to suppliers in other signatory countries. It liberalises the purchasing procedures for products and supporting services (but not the provision of services alone) on contracts of approximately £100,000 and upwards awarded by ministries, departments and similar entities under the direct or substantial control of central governments. Exceptions can be made for security and other reasons, and the agreement does not apply to defence contracts for war-like stores.

46. The procedures by which governments invite and the conditions under which companies must submit tenders are to be published and must be clear. There should be no discrimination between foreign and domestic suppliers. Most major contracts are to be advertised in advance in specified journals,

and 'single tendering' is permitted for certain types of contract only. For countries where language is a barrier, eg Japan, a summary must be published in a GATT language, ie English, French or Spanish. Once a contract has been awarded, there are provisions for any eliminated supplier to ask why he was not accepted or not asked to submit a tender: and who was successful and why. This and other similar procedures are aimed at ensuring that justice is done and seen to be done. Settlement of disputes is assisted by a committee of signatories to the agreement. There is to be a review after three years which will consider broadening the scope of this agreement.

47. Lists of the purchasing entities in each signatory country covered by the agreement and the publications in which contracts are to be advertised are annexed to the main text of the agreement. For the UK, the list includes government departments, a number of other entities but not in general nationalised industries. However, exceptionally, the inclusion of the Post Office's postal business was accepted as an essential element in the common Community position needed in the negotiations.

48. Many of the procedures established by this agreement are similar to those contained in the EEC Supplies Directive (77/62) which came into effect in July 1978 and which applies to contracts over £130,000. It is expected that existing Departmental arrangements for the Supplies Directive will continue to operate on essentially the same basis after the new agreement comes into effect. Firms in participating countries outside the Community will be treated on an equal basis with those within the Community, while, in return, UK firms will have improved opportunities to bid for contracts in their countries.

Import Licensing Procedures

49. The import licensing agreement aims at ensuring that import licensing procedures do not in themselves act as restrictions on imports, whether they relate to licensing for quantitative restrictions purposes or to automatic import licensing. Among its requirements are that the rules covering import licensing should be published promptly; application forms and renewal procedures should be as simple as possible; minor documentation errors should not be penalised unduly; and licences should be issued quickly, be for a reasonable length of time and cover economic quantities. Disputes arising from the agreement will be dealt with under Articles XXII and XXIII of the GATT.

50. The agreement offers the prospect of benefits for exporters to certain foreign countries. It does not require any change in EEC law or UK practice.

Counterfeit Goods

51. This draft agreement, which is still being finalised and whose date of entry into force is uncertain, aims to discourage international trade in counterfeit goods (ie goods bearing a false trade mark) by denying the financial advantages of such trade to manufacturers and traders. Following an initiative late in the negotiations by the United States, the draft has been developed by US and EEC negotiators, who are expected to seek a wider body of support for an agreement along these lines.

52. The draft agreement provides for trade mark owners who become aware of information about international trade in counterfeit goods to present the

information to signatory national authorities: who once they are reasonably satisfied that such goods are counterfeit may seize or detain them on importation. Goods shown to be counterfeit should normally be disposed of outside the channels of commerce. Signatories also undertake to exchange information on international trade in counterfeit goods subject to confidentiality provisions. The agreement sets up a committee of signatories to oversee the running of the agreement and to resolve disputes.

53. UK practice already allows for seizure of counterfeit goods. If implemented on a multilateral basis such an agreement would however help British firms who are being harmed by competition from goods bearing a false trade mark in the markets of signatory countries.

Safeguards

54. Article XIX of the GATT permits 'safeguard' action—ie emergency action to restrict imports when they arrive in such increased quantities and under such conditions as to be the cause of disruption to the domestic industry. Such action has been under review in the Tokyo Round negotiations but it has not yet proved possible to conclude negotiations for a safeguards code.

55. Developed countries have had two main objectives in the negotiations; the United States and others seeking improved procedures within the GATT before safeguard action is taken by an importing country, and the EEC and others seeking recognition (as part of the total safeguard package) that such action may be taken selectively in appropriate circumstances. Selective action in this context means action imposing restrictions against one or more countries but not (as has been traditional) against all GATT members.

56. Discussions about procedures have been mainly concerned with the criteria to be met by such action—eg (notably) whether such an action should have a specific limited life; the base period which should be used in determining any quota; and whether there should be an automatic increase in quota level during the life of the quota. Additionally, it has been proposed to establish a Safeguard Committee which would have the responsibility to monitor safeguard measures and to review them. The precise role of the Committee is still under consideration. Discussions about selectivity have been concentrating on the additional criteria that might be applied to selective action to take account of the fears of developing countries that the use of such action will lead to an increase in safeguard actions taken against them.

57. The Government's view is that additional disciplines on, and increased surveillance of, safeguard action are acceptable, but that in the last analysis safeguard actions (whether general or selective in particular circumstances) must be possible when the importing country considers them justified.

58. Negotiations are continuing on both selective action and improved procedures. If it does not prove possible to bring these to a conclusion before the implementation of the agreements which have already been negotiated, discussions may continue separately under GATT auspices.

Disputes Procedures

59. Each of the agreements about non-tariff measures contains provisions for resolving disputes between parties to it about the matters with which it is

concerned. The agreements on customs valuation, government procurement, technical barriers to trade, and counterfeit goods provide that, if a dispute cannot be settled directly between the parties, it may be referred by either party to a committee composed of all the signatories to the agreement concerned. This committee shall seek to conciliate a solution. If this fails, either party can have the dispute referred to a panel set up by the committee, which shall report on the matter. Based on the panel's findings, the committee may make recommendations to any of the parties to the dispute. If its recommendations are not complied with, the committee is empowered (if it sees fit) to suspend obligations of one or more signatories to the agreement towards any other signatory.

60. The Agreement on Customs Valuation establishes in addition a Technical Committee which may be consulted about any matter in dispute. The Agreement on Technical Barriers to Trade provides additionally that a technical group of experts should be formed to assist in resolving any dispute involving technical issues.

61. The Agreement on Subsidies and Countervailing Duties also provides for the resolving of disputes by a committee of signatories assisted by a panel where necessary. The Committee is empowered, if its recommendations are not complied with, to authorise such countermeasures as may be appropriate.

62. These disputes procedures in the new agreements have similarities to (while being more automatic than) present GATT procedures for resolving disputes.

Developing Countries

63. The developing countries stand to benefit from the general reduction in barriers to trade and strengthening of GATT disciplines to which the developed countries have agreed. In addition, favourable treatment has been conceded to them in the negotiations, in accordance with the aims of the Tokyo Round. The Community has made, and implemented on 1 January 1977, an offer of tariff reductions on tropical products in respect of imports totalling four billion dollars. Some of these concessions are directed particularly at the needs of the poorer developing countries—eg concessions in the preferential tariff rates for developing countries on tobacco, spices, vegetable oils, and cut flowers. Most other developed countries have implemented offers on tropical products. As regards industrial tariffs, the Community and others have offered cuts greater than those required by the standard tariff cutting formula on a number of products of particular interest to developing countries.

64. Favourable provisions have also been incorporated, where feasible, in the agreements relating to non-tariff barriers to trade. The main points are as follows. The Agreement on Subsidies and Countervailing Duties exempts developing countries from the outright ban on export subsidies which applies to the manufactured exports of developed countries. It substitutes in its place less onerous provisions placing limitations on the use of export subsidies by developing countries and encouraging their progressive reduction and elimination. Developing countries are not expected to make as large a contribution as developed countries towards the operation of the Government Procurement Agreement, either in respect of the number of government purchasing bodies within its scope, or in respect of the range of products covered. Developing

countries enjoy an exemption for five years from the provisions of the Customs Valuation Agreement, after its entry into force on 1 January 1981, and the Agreement makes provision for technical assistance to be available to developing countries to operate its provisions. The Agreement on Technical Barriers to Trade makes provision for periods of grace before developing countries have to undertake some of its obligations, and for technical assistance to be available to them.

65. An initiative by a group of developing countries led by Brazil has resulted in the drafting of the 'framework' texts. These proposed agreements are largely concerned with adapting GATT rules to the needs of developing countries. The general 'most favoured nation' provision in Article I of the GATT which requires non-discrimination in tariff and other matters stands to be modified to permit discrimination in favour of developing countries on a permanent legal basis, rather than (as at present) having it subject to discretionary waivers. The text records (for the first time) present GATT practice for the settlement of disputes by the GATT contracting parties, and codifies the need for GATT members to pay special attention to the needs of developing countries in the GATT consultation, disputes, and surveillance procedures. Technical assistance is available to developing countries from the GATT Secretariat in connection with these procedures. The framework text also extends the purposes for which developing countries may take action against imports to aid their development. Developed countries state in the text that they do not expect developing countries to make concessions in trade negotiations which are inconsistent with their individual development, financial and trade needs. Developing countries for their part affirm an expectation that their capacity to make contributions under the GATT would improve as their stage of development improves.

66. Within the context of the Tokyo Round negotiations, Colombia, the Philippines and Mexico have applied for full membership of the GATT. Negotiations have been concluded with Colombia and the Philippines; those with Mexico are still in progress.

67. A number of issues of close interest to developing countries are still outstanding. Discussions are continuing on the proposed safeguards agreement. Certain developing countries have put forward an alternative text for part of the Customs Valuation Agreement, and consideration of this is in progress. Discussions are also continuing on certain further concessions which the Community and some other developed countries might make in the tariff negotiations; on the concessions which the more advanced of the developing countries might make in this area; and on the contributions which certain developing countries might make to the Government Procurement Agreement.

68. Developing country representatives have stated in the Trade Negotiations Committee and at the fifth session of the United Nations Conference on Trade and Development that the results of the Tokyo Round fall substantially short of their objectives. Proposals which have been formulated on behalf of developing countries include the removal of the remaining restrictions on their exports, including quantitative restrictions, and the rejection of any need for a developing country to make increased contributions under the GATT as its stage of development improves. On the other hand, there have been indications of

willingness by some of the more advanced of the developing countries to subscribe to some of the agreements which have been drawn up. When the outstanding issues of concern to developing countries have been resolved, and developing countries have had time to consider their position, the Government hopes that as many as possible will subscribe to the Tokyo Round agreements.

Community procedures for concluding agreements

69. The Commission is currently proposing that Community decisions should be taken to conclude the trade agreements which have been drawn up in the Tokyo Round¹. Some of the agreements are for the Community alone to sign, while others—those involving both Community and member states' competence—will, in the Government's view, also require the signatures of member states. No primary legislation is expected to be needed in the UK to implement the results: some secondary legislation will be required.

Conclusion

70. The agreements reached in the Tokyo Round provide for a substantial reduction in tariffs and non-tariff barriers to trade. This will create new opportunities for UK exporters in overseas markets, and lead to some increase in competition in our domestic market. The tariff changes will take place gradually over nearly a decade, to assist UK firms to take advantage of the opportunities, and adjust to the challenges, involved.

71. Perhaps more important, the Tokyo Round has provided for the first general updating of GATT rules since the General Agreement came into force in 1948. The new agreements provide a basis on which the GATT can be adapted to the needs of the international trading community in the 1980s, and thus provide a more secure framework of rules and procedures to encourage the continued expansion of world trade.

¹ The Council is being invited by the Commission to conclude all the multilateral agreements listed in Annex I, except for the draft agreement on measures to discourage the importation of counterfeit goods and the framework texts. The Council is also being invited to approve certain bilateral agreements, most of which are concerned with barriers to trade in agriculture (paragraphs 24-26 refer); to take note of certain other bilateral exchanges of correspondence on the interpretation of agreements and other matters; and to conclude the protocols of accession to the GATT of Colombia and the Philippines. The conclusion of an agreement on trade in counterfeit goods would need to come later.

The texts drawn up in the framework group, and the proposals noted in paragraph 23 to continue discussions on a consultative agricultural framework, would need to be adopted by the GATT contracting parties as a whole. For the present, the Commission is inviting the Council to approve the substance of the framework texts, and to approve the principle of a decision by GATT contracting parties to continue work on a consultative agricultural framework.

ANNEX 1

Participants in the Tokyo Round

The members of the Trade Negotiations Committee in April 1979 were:

Algeria	Iceland
Argentina	India
Australia	Indonesia
Austria	Iran
Bangladesh	Iraq
Benin	Israel
Bolivia	Ivory Coast
Botswana	Jamaica
Brazil	Japan
Bulgaria	Kenya
Burma	Korea, Republic of
Burundi	Madagascar
Cameroon	Malawi
Canada	Malaysia
Chile	Mali
Colombia	Malta
Congo	Mauritius
Costa Rica	Mexico
Cuba	New Zealand
Czechoslovakia	Nicaragua
Dominican Republic	Nigeria
Ecuador	Norway
Egypt	Pakistan
El Salvador	Panama
Ethiopia	Papua New Guinea
European Communities and Member States	Paraguay
Belgium	Peru
Denmark	Philippines
France	Poland
Germany, Federal Republic of	Portugal
Ireland	Romania
Italy	Senegal
Luxembourg	Singapore
Netherlands	Somalia
United Kingdom of Great Britain and Northern Ireland	South Africa
Finland	Spain
Gabon	Sri Lanka
Ghana	Sudan
Greece	Swaziland
Guatemala	Sweden
Haiti	Switzerland
Honduras	Tanzania
Hungary	Thailand
	Togo
	Tonga

Trinidad and Tobago
Tunisia
Turkey
Uganda
United Kingdom (on behalf of dependent territories)
United States of America

Uruguay
Venezuela
Viet-Nam
Yemen, Democratic
Yugoslavia
Zaire
Zambia

ANNEX 2

Tokyo Round Multilateral Agreements

<i>Agreement</i>	<i>Cmnd Number</i>
(a) Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the GATT (Subsidies and Countervailing Duties Agreement)	7658
(b) Agreement on Technical Barriers to Trade	7657
(c) Agreement on Implementation of Article VII of the GATT (Customs Valuation Agreement)	7663
(d) Agreement on Implementation of Article VI of the GATT (Anti-Dumping Agreement)	7664
(e) Agreement on Government Procurement	7662
(f) Agreement on Trade in Civil Aircraft	7661
(g) Agreement on Import Licensing Procedures	7660
(h) Agreement on Measures to Discourage the Importation of Counterfeit Goods (Draft)	7665
(i) Arrangement on Bovine Meat	7659
(j) International Dairy Arrangement	7666
(k) Tariffs: Geneva (1979) Protocol to the GATT	7668
(l) Framework Texts	7667

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80 Chichester Street, Belfast BT1 4JY

*Government publications are also available
through booksellers*

Trade

15 October 1979

White Paper on the Multilateral Trade Negotiations

As I have told you on the telephone, the Prime Minister has agreed that the MTN White Paper should be published on 18 October.

I am sending copies of this letter to John Stevens (Chancellor of the Duchy of Lancaster's Office), Richard Prescott (Paymaster General's Office) and to Henry James in this office.

MICHAEL ALEXANDER



Mrs. C. Bargery,
Department of Trade.



10 DOWNING STREET

Mr Whitmore -

The Cabinet Office & everyone else agree that this is entirely straightforward & uncontroversial. You may think there is no need to bother the P.A. with the papers. But the Dept of Trade would be v. grateful to have the P.A.'s decision before the weekend.

Michael

MICHAEL

Did you write to confirm the PM's agreement to this? M

CONFIDENTIAL



From the
Minister of State
for Trade's Office

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

①

Prime Minister
Agree date of publication?

Private Secretary
The Prime Minister
No 10 Downing Street
London
SW1

Agreed by 8 October 1979
via Prime Minister
KW - told NODBA

Paul

Dear Private Secretary,

11x

12/10

I enclose a copy of a self-explanatory letter from the Minister for Trade on the publication of a White Paper on the outcome of the Multilateral Trade Negotiations (MTNs) and a copy of a draft of the White Paper which he proposes should be published. Subject to satisfactory resolution of the one drafting point referred to in the Minister's letter, both the principle of the publication of the paper and its text have been cleared in correspondence by OD(E) Committee.

The reasons my Minister proposes publication on 18 October are as follows. The Foreign Affairs Council is expected to consider the MTN package of agreements at a meeting on 29/30 October. The Parliamentary Scrutiny Committee may therefore wish to consider the matter at a meeting the previous Wednesday, 24 October, and the Committee should have the White Paper as one of the documents available. For this to be possible, the White Paper should be available to the members of the Scrutiny Committee by the previous Friday, 19 October, in view of the complexity of the subject matter.

I would be grateful, therefore, for your agreement to the proposed date of publication.

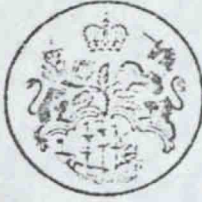
I am copying this letter to the Private Secretaries to the Paymaster General, the Chancellor of the Duchy of Lancaster, and to the Prime Minister's Chief Press Secretary.

Yours sincerely,

Vivien Thackeray

VIVIEN THACKERAY
Private Secretary to the Minister
for Trade (CECIL PARKINSON)

CONFIDENTIAL



DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister of State
for Trade

The Rt Hon The Lord Carrington
KCMG MC
Foreign and Commonwealth Office
Downing Street West
London
SW1

21 September 1979

Dear Peter,

The EEC Foreign Affairs Council gave its agreement last April to the Commission initialling the agreements which had been drawn up in the Multilateral Trade Negotiations, and Parliament debated the matter on 29 June. The participants in the Tokyo summit committed themselves to an early implementation of the agreements. For the Community to implement, the Foreign Affairs Council will need to take a formal decision to conclude the agreements concerned; and the Commission is expected to propose that this decision be taken, either at the Foreign Affairs Council scheduled for 29/30 October, or at a subsequent Foreign Affairs Council in the second half of November.

In these circumstances, we need to consider the publication of a White Paper on the outcome of the negotiations. A white paper was published in 1967 on the outcome of the Kennedy round of trade negotiations, and white papers have also been published on the outcome of each of the five other rounds of trade negotiations held between 1947 and 1967. The publication of a white paper this time would thus provide what has become a normal document of public information and record. It would also help us secure Parliament's consent for the Government supporting the EEC Council's conclusion of the MTN agreements, and their consent for the passage of certain secondary legislation that will be necessary.

I attach in draft the White Paper which I propose be published. It has been prepared by my Department in consultation with other Departments concerned, and represents a development of an informal paper which was made available to Members of Parliament before their debate on 29 June last. Much of it covers matters that have caused little or no concern amongst MPs or the public. Exceptionally, the Community's concessions on textile and paper tariffs did cause some controversy and the draft white paper spells out the commitments which the community has undertaken to safeguard the interests of its producers in these sectors. A second matter which has given some concern to us, and to the Department of Industry particularly, is that the US should fully implement the agreements which have been drawn up,



and the draft white paper indicates the importance which the Community attaches to this, in respect of the agreement on subsidies and countervailing duties in particular.

A limited amount of updating to the attached text may be necessary in particular in respect of the passages in square brackets, shortly before publication. My Department would consult other Departments about this as necessary.

We need to state in the White Paper an attitude to the conclusion of the MTN agreements. Following the endorsement which I gave to the outcome of the negotiations in the Commons debate last June, I propose that the white paper state that the Government will support the conclusion of the MTN agreements by the EEC Council. Any other course could have serious consequences for our relations with other countries, the Americans and the Germans in particular.

It would be desirable to have the White Paper available for Parliament on the return of the Commons on 22 October, and printing arrangements have to be made in advance. Could I therefore ask you and other recipients of this letter to let me know in the course of the next week whether you agree in principle to the publication of a white paper, and whether the attached draft is acceptable to you, subject to the outstanding matters I have mentioned in my paragraphs 5 and 6 above.

I am copying this letter to members of the OD(E) Committee, and also to the Secretary of State for Industry, the Chancellor of the Duchy of Lancaster, the Paymaster General, and Sir John Hunt.

J. Harris *Paul*
Paul

CECIL PARKINSON

DRAFT WHITE PAPER

THE MULTILATERAL TRADE NEGOTIATIONS 1973-79

INTRODUCTION

1 The Tokyo Round of multilateral trade negotiations was launched by a declaration of Ministers from about one hundred countries meeting in Tokyo on 12 - 14 September 1973 under the auspices of the General Agreement on Tariffs and Trade (GATT). The six previous GATT negotiating rounds which have been held since 1947 have been mainly concerned with the reduction of tariffs on a reciprocal basis. The most recent, the Kennedy Round ^I (1964-67) also reached agreements relating to certain non-tariff barriers to trade.

2 The Tokyo Round has a broader scope than these. In addition to negotiating about tariffs, the participants placed major emphasis on reaching agreements on non-tariff measures which restrict or distort international trade, and which have assumed greater importance as tariff barriers have become lower. The negotiations were conducted during a period of difficult economic circumstances, which many feared would lead to an increase in the restrictions placed by governments on international trade.

3 The Government welcomes the successful conclusion of the negotiations, now in their final stages. As well as providing for important further reductions in tariffs, the negotiated agreements also establish new procedures to enable nations

^IThe Kennedy Round of Trade Negotiations 1964-67 (Cmd 3347)

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to resolve the difficult issues in their trading relations which must be solved if world trade is to prosper in the 1980's. The Government will support a formal decision to enter into the agreements by the Council of Ministers of the European Communities, which is expected before the end of the year. The United States has already passed its necessary implementing legislation, with the signature of the Trade Agreements Act 1979 by President Carter on 26 July. The other major developed countries are expected to ratify. The position of the developing countries is still uncertain; the Government hopes that many of them will support the outcome, in recognition of the interest of both developed and developing countries in strengthening the open system of international trade.

OBJECTIVES

4 The objectives of the negotiations were set out in the declaration agreed at the Ministerial meeting in Tokyo. They were, first, to achieve the expansion and further liberalization of world trade through the progressive dismantling of obstacles to trade on a reciprocal basis, and the improvement of the international framework for its conduct. Secondly, the negotiations aimed to secure additional benefits for the international trade of developing countries. It was envisaged that special and more favourable treatment would be accorded to them in areas of the negotiations where this was feasible and appropriate.

5 To this end, the negotiations aimed, in particular, to:

- (1) reduce tariffs by the employment of appropriate

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formulae of as general an application as possible.

(2) reduce or eliminate the effects of non-tariff barriers to trade.

(3) examine the possibilities for agreements to reduce or eliminate barriers to trade in particular economic sectors (the 'sector' approach).

(4) examine the adequacy of the multilateral safeguards system.

(5) include agriculture within the negotiations while taking account of the special characteristics of this sector.

(6) treat tropical products as a special and priority sector.

THE NEGOTIATIONS

6 At the outset, a Trade Negotiations Committee was formed to supervise the negotiations. The Committee was composed of all the 99 countries participating in the round, including some countries not in membership of GATT. The members of the Committee in April 1979 are listed in Annex 1. Under the Committee, seven negotiating groups were set up: on tariffs; on non-tariff barriers to trade (with subgroups on quantitative restrictions, technical barriers to trade, customs matters, public procurement and subsidies and countervailing duties); on agriculture; on the 'sector' approach; on tropical products

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on safeguards; and on the improvement of the framework for the conduct of international trade. The membership of these groups was drawn from both developing and developed countries. Substantial bilateral bargaining also took place where necessary, for example on tariffs. In accordance with the Treaty of Rome, the Commission negotiated on behalf of the European Community, under the direction of the Council of Ministers and in frequent consultation with member states.

7 The negotiations started only slowly, as it took some time for the US Congress to pass the Trade Act giving the US Administration authority to negotiate, and it took the EEC some time to agree a negotiating mandate. The 1976 US presidential election then intervened. As a result, the negotiations could not make any decisive progress until 1977. They came to head in 1978 and early 1979, culminating in a meeting of the Trade Negotiations Committee on 11-12 April 1979 and the opening for signature on 12 April of a proces verbal recording the main results. After some further adjustments to the tariff offers, a tariff protocol was opened for signature on 11 July. Negotiators from the main developed participants in the round have signed the proces verbal and the tariff protocol, though by 1 October 1979 only [two] developing countries had done so.

RESULTS

SCOPE AND FORMAT

8 Agreements have been negotiated on tariff reductions: on the reduction of tariff and other barriers to trade in

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agriculture: on trade in beef and dairy products: on the reduction of barriers to trade in aircraft: on subsidies and countervailing duties: on customs valuation methods; on technical barriers to trade: on government purchasing: on import licensing procedures: on discouraging trade in counterfeit goods: on the updating of the existing anti-dumping code and on the framework for international trade. The texts of the various multilateral agreements accepted by negotiators from developed countries are being published in separate Command papers, listed in annex 2. The schedules of tariff concessions annexed to the tariff protocol are expected to be published shortly by the GATT Secretariat.*

9 The paragraphs which follow give a summary of the agreements concerned, and of certain points still outstanding on safeguards and other matters. The agreements are to come into force on 1 January 1980 except where otherwise specified.

INDUSTRIAL TARIFFS

10 The main developed countries are to reduce tariffs substantially, by rather under a third on average on a reciprocal basis, over an eight year period. The negotiators from the main developed countries proceeded by adopting a tariff-cutting formula, the so-called 'Swiss' formula^I, under which

* Note, not for publication. It is intended that a written PQ answer should announce that photostat copies of the lists of tariff concessions are meanwhile being placed in the libraries of both Houses of Parliament

I The formula adopted by the US and Japan is that the final tariff rate to be offered is $14x/14+x$, where X is the current tariff rate (expressed in percentage points). The Community adopted the related formula $16x/16+x$. Under the Community version of the formula, a 5% tariff for example will be reduced to 3.8% an 8% tariff to 5.3% and a 12% tariff to 6.9%.

high tariffs are cut proportionately more than low ones. This increases the extent to which the tariffs of different countries are brought into alignment. Within this general framework, negotiators made a number of partial or full exceptions to the general formulae for the benefit of industries particularly vulnerable to import competition.

Bilateral Negotiations

11 The Community's main completed agreements on industrial tariffs lie with the United States, Japan, and Canada, and (at a lower level of concession) with Australia and New Zealand. Most of the UK's trade in manufactured goods with countries within the European Free Trade Association (EFTA) is already conducted free of duty under the EEC/EFTA free trade agreements, and the remaining restrictions were not a matter for negotiation in these negotiations. Full reciprocity was not expected from developing countries: the more advanced of the developing countries were however expected to make some concessions, and discussions with them are continuing in October 1979. (see paragraph 66).

12 The United States imposes a number of high tariff rates of 20% and more, mainly on textile and chemical products. As described in paragraphs 17-20 below, she is to make valuable reductions in her high chemical tariffs and in some (though not all) of her high textile tariffs. Other US tariff reductions on products of interest to UK exporters include, for example, bone china householdware (17.5% tariff to be reduced to 8%); antibiotics (5% to 3.7%), compression ignition engines (5% to 3.7%); earthmoving equipment (5% to 2.5%); furniture (10% to 4%) and toys and parts (17.5% to 7%). On average,

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the US has agreed to reduce her tariffs against EEC exports (on a trade-weighted basis)^I by around 30%

13 Japan's effective tariff level on industrial imports is on average lower than that of the Community, and she made a number of exceptions to her tariff offer in sensitive industrial sectors - notably textiles, clothing and footwear. However, she is to make a substantial number of tariff reductions of interest to the UK. Examples are penicillin medicaments (10.5% tariff to be reduced to 5.8%); other medicaments (8% to 5.8%); reactive dyes (10% to 6.6%); certain automatic data processing machines (10.5% to 4.9%); certain other types of computer equipment (17.5% to 6%); and certain sports equipment (8% to 4.8%). On a trade-weighted basis, Japan has agreed to cut its effective tariffs against Community exports by an average of about 25%.²

14 Canada offered to reduce her tariffs against the Community industrial exports by around 30% on average. Examples include wallpaper (15% tariff to be reduced to 7.5%), certain types of glassware (15% to 11.3%), and records (15% to 11.3%). The Canadian tariff concessions inevitably mean some erosion in the remaining UK preferences in this market (which Canada has in any case stated that she is phasing out). The agreements reached with Australia and New Zealand are at a relatively modest level of concession, reflecting the modest level of

I Here and elsewhere, statistics for average tariff reductions are calculated on a trade-weighted basis, using 1976 trade volumes as a basis. (1976 was taken as the basis year for the negotiations, and statistics relating to later years are not generally available).

2 Exceptionally among the main developed countries Japan has reduced many of her effective tariff rates to below the GATT 'bound' rates which she is entitled to charge. This means that the cut in Japan's bound rates will be substantially greater than the 25% average cut offered on her effective rates. It also implies that many of the cuts in Japan's effective rates could start later than the cuts offered by other participants in the round. Japan may however be prepared to start on about the same date as other countries; the issue is still under discussion. RESTRICTED

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concession which the Community can offer on the agricultural products of interest to those countries.

15 The EEC in return offered to cut its tariffs on a range of products by the amount required by the standard tariff cutting formula. Examples include some chemicals (eg pharmaceuticals), non-electric machinery, scientific and medical instruments, furniture and a range of miscellaneous manufactured products. On the other hand, cuts of less than the size required by the standard formula were offered on a range of products which are most vulnerable to import competition. Examples of products where no tariff cut is to be made, or cuts are limited to one or two percentage points on substantial tariffs, include fertilisers; iron and steel pipes and tubes; colour television sets; semi-conductors and microcircuits; heavy lorries; motor cars; footwear; and cutlery. Taking these exceptions into account the Community is to reduce its tariff from an average trade weighted level of 9.8% to an average level of 7.5%. The trade-weighted average cut on tariffs against imports from the US is about 30%, and the trade-weighted average cut against imports from Japan about 20%.

16 The Community's tariff negotiations with Japan were concluded at a relatively modest level of reduction in effective tariffs. The tariff agreement with the United States was at a more ambitious level of mutual concession and involved some difficult negotiations particularly over the paper, textiles and chemical sectors.

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Textiles

17 The textile tariff cuts to be made by the US and the Community are generally less than those which would result from the application of the standard tariff-cutting formula. The Community's concessions include those on synthetic fabrics where tariffs of 13% - 16% are to be reduced to 10% - 11%, cotton fabrics, where 13% - 15% tariffs are to be reduced to 10%, and tufted carpets, where a 23% tariff is to be reduced to 14%. The US is (inter alia) to make reductions in her synthetic textile tariffs, and valuable reductions in her high tariffs on most wool textile products of interest to the UK. For example, the tariffs on various types of wool sweater are to be reduced from 24-25% to 17%, and cashmere sweaters from about 16½% to 7½%; and the tariff on woven woollen cloth value at over 9 dollars per lb is to be reduced from 44.4% ad valorem equivalent to 33%^I. The tariff changes by the US and the Community should reduce, but not eliminate, the difference between the average levels of the Community and the generally higher US tariffs on textiles and clothing.

18 To help meet the concern of Community producers about increased competition in the synthetic sector, the EEC Council of Ministers has declared that, in the event that artificial differences in energy and feed-stock prices available to world synthetic fibre producers threaten disruption to the Community market for textiles, they will have recourse without delay to the appropriate provisions of the GATT. With the full support of the Government, the Commission has carried out a study of this matter to establish the facts, and [has entered] into discussions with the US administration about it.

^IUS tariff rates are quoted as ad valorem equivalents based on 1976 figures

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addition, the Community has reserved its right to withdraw its textile tariff concessions in the absence of a mutually acceptable arrangement regarding international trade in textiles. This relates to the continuance of acceptable arrangements after the present Multi-Fibre Arrangement expires at the end of 1981, and parallels a similar reservation in the US textile offer.

Chemicals

19 The Community offered formula reductions in the tariffs on a range of chemical products including many pharmaceuticals. A complete exception from tariff cuts has been made for most fertilisers and some important dyestuffs, and less than formula cuts have been agreed for plastics. The US has agreed to abolish the American Selling Price (ASP) system,^I which applies presently to benzenoid chemicals and which leads to high tariff rates of over 40% in some instances. As a consequence of this and cuts in nominal tariff rates the US are to reduce virtually all their tariff rates on benzenoid chemicals to 20% or less. There are specially negotiated rates for the so-called 'future' benzenoid products, not yet marketed. The US is to make formula cuts, with some exceptions, in the tariffs on chemicals other than benzenoid chemicals.

20 This outcome achieves a major Community objective in securing the abolition of the ASP system, and a substantial reduction in the high US chemical tariffs. The cuts in benzenoid chemical tariffs should start to take effect from 1 July 1980, the date agreed for the entry into force of the Customs Valuation Agreement in the United States.

^I see paragraph 39

Paper

21 The Community's initial offer provided for cuts of less than those required by the standard tariff cutting formula on most paper products, and offered no reduction on kraft paper and board. Towards the end of the negotiation the Community conceded, however, a cut in the tariff on most types of kraft paper and board from 8% to 6%. This represents a substantial concession though still less than a standard formula cut. In agreeing to the concession as part of the total package the EEC Council of Ministers insisted on a delayed implementation so that tariff reductions on kraft paper and board will not start until 1983. In addition the Commission gave assurances that they would pursue a vigorous anti-dumping policy for the paper sector to ensure that major foreign producers do not off-load part of their production onto the Community market at marginal prices below their domestic price or their normal costs.

Staging of Tariff Cuts

22 Most of the cuts in industrial tariffs will be implemented in 8 equal annual stages between 1 January 1980 and 1 January 1987. Participants in the negotiations have, however, agreed a number of exceptions. For the Community, certain sensitive tariff cuts will not start until 1982; these are on steel, textiles (other than silk), ceramic products, titanium and a few chemical products^I. The Community has reserved its right to stop the tariff cuts after five stages in 1984 without proceeding to the last three stages, if it judges that the economic or other circumstances at the time require this.

^IThis is in addition to the delayed staging in respect of kraft paper and board noted in paragraph 21.

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AGRICULTURE

23 Agreement has been reached on multilateral arrangements relating to dairy products and beef. The arrangements provide for continuing consultation between signatory countries on developments in the world market for those products. Additionally, the arrangement for dairy products contains minimum price agreements for milk and skim milk powder, butter, butte oil and cheese. The Agriculture Negotiating Group has recommended the development of active co-operation in the agricultural sector within an appropriate consultative framework; the detailed terms of reference for this are to be the subject of further discussion.

24 The Community has agreed to reduce tariffs on a range of food and agricultural products many of them in the fresh fruit and vegetable sectors; on bourbon whisky and tobacco; and on certain types of fish eg cod and salmon. The Community has agreed to improve access for third country supplies of beef, notably by increasing the annual tariff quota for frozen beef from 38,500 tonnes to 50,000 tonnes, and opening an annual quota for 21,000 tonnes of special cuts of high quality beef from the USA, Australia, Argentina and Uruguay. The Community has also made concessions on cheese by opening quotas at reduced levies for a total of 15,250 tonnes from New Zealand, Australia and Canada.

25 Other main participants in the negotiations have for their part agreed to important concessions of value to UK exporters. The US has agreed to abolish the wine gallon method of tax assessment (whereby their imports of bottled

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whisky pay extra tax) while the Canadian Provincial Liquor Boards have agreed to give undertakings about their practices affecting imports of spirits. Both countries have agreed to make substantial reductions on the tariff on whisky and in the case of Canada on gin, rum and liqueurs.

26 The US, Canada and Australia have agreed to improve access for Community cheese. The USA has agreed to operate its import system for fresh, chilled or frozen beef so as to allow access for 5,000 tonnes of beef from those Community states which it regards as being free from foot and mouth disease. New Zealand has agreed to some liberalisation of its import quota system for certain food products. Other tariff reductions by third countries of particular interest to the UK include sardines, biscuits and citrus juices (New Zealand) chocolate confectionery and biscuits (Japan), cocoa powder, chocolate preparations and biscuits (Canada) biscuits, cakes and pastry (South Africa) and stilton cheese and sugar confectionery (Australia).

27 Most of the agricultural concessions between the Community and other negotiating parties will be introduced gradually over an eight year period beginning 1 January 1980. Some of the concessions, mainly relating to non-tariff barriers, will however be introduced in full on 1 January 1980.

28 The Community's tariff concessions on agricultural products, though not as large or wide ranging as the Government would have wished, will nevertheless be of

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benefit to UK consumers. The exchange of concessions on agriculture provides some recognition by the major trading nations of the need to keep open their markets for agricultural products, and the concessions on whisky in particular will be valuable to UK exporters. The outcome for Australia and New Zealand has undoubtedly fallen well short of their hopes; even the relatively modest concessions over access which the Community were prepared to make were agreed only with considerable difficulty for a number of Member States. However, Australia and New Zealand have recognised that the concessions are of value to them; and these countries can also expect, as a result of the agreements reached in the negotiations, that the Community will have a greater regard in future to the effects of their use of agricultural export subsidies on the agricultural exports of other countries.

CIVIL AIRCRAFT

29 This agreement is concerned with tariffs and other matters affecting international trade in civil aircraft.

30 Signatories to the agreement undertake to reduce their tariffs on aircraft, aero-engines and some aircraft equipment to zero on 1 January 1980. They note that the agreement on subsidies and countervailing duties applies to trade in aircraft, while also undertaking to take account of the special factors that apply to this sector, in particular the widespread government support it enjoys. Limitation is placed on the extent to which

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governments may influence airlines' purchasing decisions, and on the type of offset arrangements which may be made. Signatories also agree not to offer inducements in connection with the sale or purchase of aircraft, which would create discrimination against suppliers from any other signatory country.

31 The agreement provides for the establishment of a Committee on Trade in Civil Aircraft. This will provide a forum for consultation between signatories on matters relating to the operation of the agreement and facilitate the resolution of any difficulties which may arise.

32 The aircraft agreement is designed to promote fair practice in the supply of civil aircraft, while recognising the special factors which apply to this sector. The elimination of tariffs should assist UK aero-space exports while not affecting the Community's tariff on large aircraft which is already suspended at zero.

SUBSIDIES AND COUNTERVAILING DUTIES

33 This agreement elaborates the existing provisions of the GATT dealing with subsidies and countervailing duties.

34 GATT rules have always allowed the imposition of a countervailing duty against imported products where it can be shown that they have benefited from a subsidy, and that they are causing or threatening material injury to domestic industry as a consequence. The agreement defines in more detail the procedures which must be followed and factors

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to be considered before a countervailing duty can be imposed. As an alternative to imposing countervailing duties, the importing country may accept an undertaking that the subsidy will be eliminated or limited, or that the exporter will increase his prices to eliminate the injurious effect of the subsidy.

35 Signatories to the agreement recognise that subsidies are used to promote important objectives of social and economic policy, but also that subsidies may cause adverse effects for the interests of other countries; and signatories undertake to seek to avoid causing such effects. There is provision for consultation and the settlement of disputes by a Committee composed of the parties to the agreement. This Committee may authorise the taking of countermeasures other than countervailing action when a signatory's rights have been infringed.

36 In accordance with Article XVI of the GATT developed countries undertake not to grant export subsidies (except that export subsidies for primary products are permitted in certain circumstances). The Illustrative List of Export Subsidies drawn up in 1960 has been brought up to date; it lists prohibited practices such as (inter alia) direct tax concessions for exporters, favourable transport and freight charges on export shipments, as well as direct subsidies to a firm dependent on their export performance. None of the UK's existing export promotion schemes should be affected.

37 A major point is that the agreement requires all its

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signatories to accept the 'material injury' criterion for countervailing action and the need for a causal link between the subsidy and the injury.^I Accordingly, signatories undertake not to impose countervailing duties unless it can be demonstrated that a domestic industry is being materially injured by subsidised imports as a consequence of the effect of the subsidy. In the Government's view, the agreement offers considerable advantage provided that the requirement for the more uniform application of these criteria than hitherto is observed.

ANTI DUMPING

38 The existing GATT Anti-Dumping Agreement, which dates from 1968, has been revised so as to bring its provisions into line with those of the Subsidies and Countervailing Agreement. The new Anti-Dumping Agreement contains revisions which clarify a number of areas of difficulty which have emerged following experience of operating the existing version. An important aim will be that the new agreement should be implemented in a uniform way by all signatories, so as to lead, in particular, to a normalisation of American anti-dumping procedures.

^IThe USA had not in the past applied these two criteria, although the potentially damaging effects of this on exports to the USA have been partly masked in recent years by a discretion which Congress granted to the Administration not to take countervailing actions while the Tokyo Round was in progress. The US is now to be committed by the agreement to observance of these criteria. In view of the fact that there is a lack of clarity on some points in the US implementing legislation the EEC Council of Ministers has emphasized to the United States Government the importance of full implementation of the agreement's provisions.

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The Community's own ability to take anti-dumping action will be unimpaired.

CUSTOMS VALUATION

39 The Customs Valuation Agreement provides for greater uniformity in the methods of arriving at the value on which ad valorem duties are based. The charging of duty on an artificially inflated value restricts trade, as it means that the importer pays more duty than he should. The agreement aims at eliminating this practice and minimising the scope for the arbitrary valuation of imported goods by customs officials such as now occurs in some foreign countries. The agreement ends the United States "American Selling Price" (ASP) system under which the duty on certain goods is assessed, not on their landed value, but on the (higher) actual selling price within the USA of similar goods produced there.

40 Under the agreement the value normally used for assessing duty on imported goods will be the price paid or payable for those goods. A number of other methods have been specified, e.g. the value of identical or similar goods, but these will be applied in a strict order of precedence. Only where the first method has been shown to be inappropriate may the country concerned go on to the next method. As a result, exporters and importers should know with greater assurance the duties to which they will be liable in trade to some foreign markets. The agreement is to be administered at the policy-making level by the Committee on Customs Valuation (composed of the parties to the agreement) and at the technical level by the Customs

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Co-operation Council. There are provisions for consultation and for the settlement of disputes by the Committee on Customs Valuation assisted if necessary by the Technical Committee and/or a panel. The agreement is to come into operation on 1 January 1981. Exceptionally the European Economic Community and the USA are to implement the agreement from 1 July 1980 as part of a bilateral deal to end the ASP system.

41 [Some developing countries have reservations about certain details of the main text and have tabled an alternative version. Further negotiation is taking place aimed at producing an agreed single text].

TECHNICAL BARRIERS TO TRADE

42 The Agreement on Technical Barriers to Trade is designed to reduce obstacles to trade that result from the preparation, adoption, and application of product standards and certification systems (whether mandatory or voluntary). The agreement encourages the use of appropriate existing international standards when a new or revised domestic standard or technical regulation is being drafted. Whenever use of an existing international standard is not appropriate, or when no international standard exists, open procedures must be followed during the formulation of standards and certification systems. The procedures include publishing proposed measures, affording an opportunity to make comments, and taking such comments into account. The agreement however, takes account of the right of countries to adopt appropriate standards to protect health, safety, or the environment.

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43 Standards and certification systems promulgated by central government bodies are subject to the agreement's requirements. Signatories undertake obligations in respect of State, local Government and other standardising bodies in their territories. As the agreement's provisions apply to new and revised standards and certification system, implementation will not involve changes in existing regulations. Nonetheless, if a signatory believes that an existing measure conflicts with the obligations imposed by the agreement, it may raise the matter in the agreement's committee of signatories and use the agreement's dispute settlement mechanism (described in paragraphs 59 - 60) to seek a mutually satisfactory solution.

44 The Community has stressed the importance it attaches to securing reciprocity in the application of the agreement, particularly in respect of access to certification systems, so that a balance of economic benefit is achieved for each party. The agreement should make it easier for exporters to identify the regulations with which they must comply in order to export to overseas markets, and is designed to lead in the medium term to a reduction in the problems these can cause.

GOVERNMENT PROCUREMENT

45 The Agreement on Government Procurement which is to come into force on 1 January 1981 aims to make the purchasing of each signatory government more accessible to suppliers in other signatory countries. It liberalises the purchasing procedures for products and supporting services (but not the provision of services alone) on contracts of approximately £100,000 and

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upwards awarded by ministries, departments and similar entities under the direct or substantial control of central governments. Exceptions can be made for security and other reasons, and the agreement does not apply to defence contracts for war-like stores.

46 The procedures by which governments invite and the conditions under which companies must submit tenders are to be published and must be clear. There should be no discrimination between foreign and domestic suppliers. Most major contracts are to be advertised in advance in specified journals, and "single tendering" is permitted for certain types of contract only. For countries where language is a barrier, eg Japan, a summary must be published in a GATT language, ie English, French or Spanish. Once a contract has been awarded, there are provisions for any eliminated supplier to ask why he was not accepted or not asked to submit a tender: and who was successful and why. This and other similar procedures are aimed at ensuring that justice is done and seen to be done. Settlement of disputes is assisted by a committee of signatories to the agreement. There is to be a review after 3 years which will consider broadening the scope of this agreement.

47 Lists of the purchasing entities in each signatory country covered by the agreement and the publications in which contracts are to be advertised are annexed to the main text of the agreement. For the UK, the list includes government departments, a number of other entities but not in general nationalised industries. However, exceptionally the inclusion

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of the Post Office's postal business was accepted as an essential element in the common Community position needed in the negotiations.

48 Many of the procedures established by this agreement are similar to those contained in the EEC Supplies Directive (77/62) which came into effect in July 1978 and which applies to contracts over £130,000. It is expected that existing Departmental arrangements for the Supplies Directive will continue to operate on essentially the same basis after the new agreement comes into effect. Firms in participating countries outside the Community will be treated on an equal basis with those within the Community, while, in return UK firms will have improved opportunities to bid for contracts in their countries.

IMPORT LICENSING

49 The Import Licensing Agreement aims at ensuring that import licensing procedures do not in themselves act as restrictions on imports, whether they relate to licensing for quantitative restrictions purposes or to automatic import licensing. Among its requirements are that the rules covering import licensing should be published promptly; application forms and renewal procedures should be as simple as possible; minor documentation errors should not be penalised unduly; and licences should be issued quickly, be for a reasonable length of time and cover economic quantities. Disputes arising from the agreement will be dealt with under Articles XXII and XXIII of the GATT.

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50 The agreement offers the prospect of benefits for exporters to certain foreign countries. It does not require any change in EEC law or UK practice.

COUNTERFEIT GOODS

51 This agreement, which [is expected to] [is still being finalised and may] enter into force on 1 January 1980, aims to discourage international trade in counterfeit goods (ie goods bearing false trade mark) by denying the financial advantages of such trade to manufacturers and traders. In practice the agreement will provide some additional international protection for trade mark holders.

52 The agreement provides for trade mark owners who become aware of information about international trade in counterfeit goods to present the information to signatory national authorities: who once they are reasonably satisfied that such goods are counterfeit may seize or detain them on importation. Goods shown to be counterfeit should normally be disposed of outside the channels of commerce. Signatories also undertake to exchange information on international trade in counterfeit goods subject to confidentiality provisions. The agreement sets up a committee of signatories to oversee the running of the agreement and to resolve disputes.

53 UK practice already allows for seizure of counterfeit goods. But the agreement should help British firms who are being harmed by competition from goods bearing a false trade

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mark in the markets of signatory countries.

SAFEGUARDS

54 Article XIX of the GATT permits "safeguard" action - ie emergency action to restrict imports when they arrive in such increased quantities and under such conditions as to be the cause of disruption to the domestic industry. Such action has been under review in the Tokyo Round negotiations but it has not yet proved possible to conclude negotiations for a safeguards code.

55 Developed countries have had two main objectives in the negotiations; the United States and others seek improved procedures within the GATT before safeguard action is taken by an importing country while the EEC and others seek recognition (as part of the total safeguard package) that such action may be taken selectively in appropriate circumstances. Selective action in this context means action imposing restrictions against one or more countries but not (as has been traditional) against all GATT members.

56 Discussions about procedures are mainly concerned with the criteria to be met by such action, - eg (notably) whether such an action should have a specific limited life; the base period which should be used in determining any quota; and whether there should be an automatic increase in quota level during the life of the quota. Additionally, it is proposed to establish a Safeguard Committee which would have the responsibility to monitor safeguard measures and to review

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them. The precise role of the Committee is still under consideration. Discussions about selectivity are concentrating on the additional criteria that might be applied to selective action to take account of the fears of developing countries that the use of such action will lead to an increase in safeguard actions taken against them.

57 The Government's view is that additional disciplines on, and increased surveillance of, safeguard action are acceptable, but that in last analysis safeguard actions (whether general or selective in particular circumstances) must be possible when the importing country considers them justified.

58 [Negotiations are continuing on both selective action and improved procedures, but it is not clear whether they can be brought to a conclusion before participants in the Tokyo round adopt and implement the agreements already negotiated. If this proves impossible, the negotiations may be continued separately under GATT auspices.]

SETTLEMENT OF DISPUTES

59 Each of the agreements about non-tariff measures contains provisions for resolving disputes between parties to it about the matters with which it is concerned. The agreements on customs valuation, government procurement, technical barriers to trade, and counterfeit goods provide that, if a dispute cannot be settled directly between the parties, it may be referred by either party to a committee composed of all the

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signatories to the agreement concerned. This committee shall seek to conciliate a solution. If this fails, either party can have the dispute referred to a panel set up by the committee, which shall report on the matter. Based on the panel's findings, the committee may make recommendations to any of the parties to the dispute. If its recommendations are not complied with, the committee is empowered (if it sees fit) to suspend obligations of one or more signatories to the agreement towards any other signatory.

60 The Agreement on Customs Valuation establishes in addition a Technical Committee which may be consulted about any matter in dispute. The Agreement on Technical Barriers to Trade provides additionally that a technical group of experts should be formed to assist in resolving any dispute involving technical issues.

61 The Agreement on Subsidies and Countervailing Duties also provides for the resolving of disputes by a committee of signatories assisted by a panel where necessary. The Committee is empowered, if its recommendations are not complied with, to authorise such countermeasures as may be appropriate.

62 These disputes procedures in the new agreements have similarities to (while being more automatic than) present GATT procedures for resolving disputes.

DEVELOPING COUNTRIES

63 The developing countries stand to benefit from the general reduction in barriers to trade and strengthening

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of GATT disciplines to which the developed countries have agreed. In addition, favourable treatment has been conceded to them in the negotiations, in accordance with the aims of the Tokyo Round. The Community has made, and implemented on 1 January 1977, an offer of tariff reductions on tropical products in respect of imports totalling 4 billion dollars. Some of these concessions are directed particularly at the needs of the poorer developing countries - eg concessions in the preferential tariff rates for developing countries on tobacco, spices, vegetable oils, and cut flowers. Most other developed countries have implemented offers on tropical products. As regards industrial tariffs, the Community and others have offered cuts greater than those required by the standard tariff cutting formula on a number of products of particular interest to developing countries.

64 Favourable provisions have also been incorporated, where feasible, in the agreements relating to non-tariff barriers to trade. The main points are as follows. The Agreement on Subsidies and Countervailing Duties exempts developing countries from the outright ban on export subsidies which applies to the manufactured exports of developed countries. It substitutes in its place less onerous provisions placing limitations on the use of export subsidies by developing countries and encouraging their progressive reduction and elimination. Developing countries are not expected to make as large a contribution as developed countries towards the operation of the Government Procurement Agreement, either in respect of the number of government purchasing bodies within its scope, or in respect of the range of products covered. Developing countries enjoy an exemption for five years from the provisions of the Customs Valuation Agreement, after its

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entry into force on 1 January 1981, and the Agreement makes provision for technical assistance to be available to developing countries to operate its provisions. The Agreement on Technical Barriers to Trade makes provision for periods of grace before developing countries have to undertake some of its obligations, and for technical assistance to be available to them.

65 An initiative by a group of developing countries led by Brazil has resulted in the conclusion of the "framework" agreements. These agreements are largely concerned with adapting GATT rules to the needs of developing countries. The general 'most favoured nation' provision in Article I of the GATT which requires non-discrimination in tariff and other matters has been modified to permit discrimination in favour of developing countries on a permanent legal basis, rather than (as at present) having it subject to discretionary waivers. The text records (for the first time) present GATT practice for the settlement of disputes by the GATT contracting parties, and codifies the need for GATT members to pay special attention to the needs of developing countries in the GATT consultation, disputes, and surveillance procedures. Technical assistance is available to developing countries from the GATT Secretariat in connection with these procedures. The framework agreement also extends the purposes for which developing countries may take action against imports to aid their development. Developed countries state in the agreement that they do not expect developing countries to make concessions in trade negotiations which are inconsistent with their individual development, financial and trade needs. Developing countries

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for their part affirm an expectation that their capacity to make contributions under the GATT would improve as their stage of development improves.

66 [A number of issues of close interest to developing countries are still outstanding. Discussions are continuing on the proposed safeguards agreement. Certain developing countries have put forward an alternative text for part of the Customs Valuation Agreement, and consideration of this is in progress. Discussions are also continuing on further concessions which the Community and some other developed countries might make in the tariff negotiations, and on the concessions which the more advanced of the developing countries might make in this area]

67 Developing country representatives have stated in the Trade Negotiations Committee and at the fifth session of the United Nations Conference on Trade and Development that the results of the Tokyo Round fall substantially short of the objectives. Proposals which have been formulated on behalf of developing countries include the removal of the remaining restrictions on their exports, including quantitative restrictions, and the rejection of any need for a developing country to make increased contributions under the GATT as its stage of development improves. On the other hand, there have been indications of willingness by some of the more advanced of the developing countries to subscribe to some of the agreements which have been drawn up. When the outstanding issues of concern to developing countries have been resolved, and developing countries have had time to consider their position

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the Government hopes that as many as possible will subscribe to the Tokyo Round agreements.

COMMUNITY PROCEDURES FOR CONCLUDING AGREEMENTS

68 The Commission [is expected to propose] [has proposed] that Community decisions should be taken under the appropriate provisions of the Community Treaties to conclude the trade agreements which have been drawn up in the Tokyo round.^I Some of the agreements are for the Community alone to sign, while others - those involving both Community and member state competence - will also require the signature of member states. No primary legislation is expected to be needed in the UK to implement the results: some secondary legislation will be required.

CONCLUSION

69 The agreements reached in the Tokyo round provide for a substantial reduction in tariffs and non-tariff barriers to trade. This will create new opportunities for UK exporters in overseas markets, and lead to some increase in competition in our domestic market. The tariff changes will take place gradually over nearly a decade, to assist UK firms to take advantage of the opportunities, and adjust to the challenges, involved.

70 Perhaps more important, the Tokyo Round has provided for the first general updating of GATT rules since the General Agreement came into force in 1948. The new agreements provide a basis on which the GATT can be adapted to the needs of the

^I Except for the Framework Agreement, which is to be adopted separately. The GATT procedures for doing this are not yet settled.

international trading community in the 1980's, and thus provide a more secure framework of rules and procedures to encourage the continued expansion of world trade.

PARTICIPANTS IN THE TOKYO ROUND

The members of the Trade Negotiations Committee in April 1979 were:

Algeria, Argentina, Australia, Austria, Bangladesh, Benin, Bolivia, Botswana, Brazil, Bulgaria, Burma, Burundi, Cameroon, Canada, Chile, Colombia, Congo, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, European Communities, EEC member states, (Belgium, Denmark, France, Federal Republic of Germany, Ireland, Italy, Luxembourg, Netherlands and the United Kingdom), Finland, Gabon, Ghana, Greece, Guatemala, Haiti, Honduras, Hungary, Iceland, India, Indonesia, Iran, Iraq, Israel, Ivory Coast, Jamaica, Japan, Kenya, Republic of Korea, Madagascar, Malawi, Malaysia, Mali, Malta, Mauritius, Mexico, New Zealand, Nicaragua, Nigeria, Norway, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Senegal, Singapore, Somalia, South Africa, Spain, Sri Lanka, Sudan, Swaziland, Sweden, Switzerland, Tanzania, Thailand, Togo, Tonga, Trinidad, and Tobago, Tunisia, Turkey, Uganda, United Kingdom (on behalf of dependent territories), United States of America, Uruguay, Venezuela, Viet-Nam, Yemen, Yugoslavia, Zaire, Zambia.

TOKYO ROUND MULTILATERAL AGREEMENTS

AGREEMENTCMND
NUMBER

<u>AGREEMENT</u>	CMND NUMBER
(a) Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the GATT (Subsidies and Countervailing Duties Agreement)	7658
(b) Agreement on Technical Barriers to Trade	7657
(c) Agreement on Implementation of Article VII of the GATT (Customs Valuation Agreement)	7663
(d) Agreement on Implementation of Article VI of the GATT (Anti-Dumping Agreement)	7664
(e) Agreement on Government Procurement	7662
(f) Agreement on Trade in Civil Aircraft	7661
(g) Agreement on Import Licensing Procedures	7660
(h) [Agreement on Measures to Discourage the Importation of Counterfeit Goods]	7665
(i) Arrangement on Bovine Meat	7659
(j) International Dairy Arrangement	7666
(k) Tariff Protocol	7668
(l) Framework Agreements	7667

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P.S.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 2472 OF 17 MAY

INFO IMMEDIATE WASHINGTON UKNIS GENEVA PRIORITY ROME PARIS BONN

ARTICLE 113 COMMITTEE (FULL MEMBERS): 17 MAY

MTNS: US IMPLEMENTATION

MY TELNO 2383

SUMMARY.

1. THE COMMISSION PROPOSED A FURTHER MESSAGE FROM HAFERKAMP TO STRAUSS THIS WEEK ON THE ISSUE OF US IMPLEMENTATION, PARTICULARLY OF THE SUBSIDIES/COUNTERVAILING AND ANTI-DUMPING CODES. THE FRENCH PRESSED FOR A FORMAL POLITICAL DEMARCHE THROUGH DIPLOMATIC CHANNELS. OTHER DELEGATION SUPPORTED THE COMMISSION, THOUGH WERE PREPARED TO INCORPORATE SOME OF THE POLITICAL POINTS PROPOSED BY THE FRENCH. THE FRENCH FINALLY ACCEPTED THAT THE DEMARCHE SHOULD BE MADE TO

PRESSED FOR A FORMAL DELEGATION
OTHER DELEGATION SUPPORTED THE COMMISSION, THOUGH WERE PREPARED
TO INCORPORATE SOME OF THE POLITICAL POINTS PROPOSED BY THE FRENCH.
THE FRENCH FINALLY ACCEPTED THAT THE DEMARCHE SHOULD BE MADE TO
STRAUSS, BUT CONTINUED TO INSIST (IN ISOLATION) THAT IT SHOULD BE A
FORMAL AND JOINT COMMISSION/PRESIDENCY DEMARCHE. THE ISSUE WILL BE
REFERRED TO COREPER ON 18 MAY.

DETAIL.

2. THE MEETING WAS CONVENED AT SHORT NOTICE IN THE LIGHT OF THE
DISCUSSION AT 113 DEPUTIES ON 15 MAY (SEE MY TELEGRAM UNDER REFER-
ENCE) TO CONSIDER TACTICS IN RELATION TO THE HOUSE/SENATE/ADMINIST-
RATION QUOTE NON-CONFERENCE UNQUOTE ON 21/22 MAY.

3. THE COMMISSION (SIR R DENMAN AND KLEIN) REPORTED ON RECENT
CONTACTS WITH THE US ADMINISTRATION. FOLLOWING A TELEPHONE
CONVERSATION BETWEEN DENMAN AND WOLFF, KLEIN HAD HELD DETAILED
TALKS IN WASHINGTON IN THE PAST FEW DAYS WITH RIVERS (GENERAL
COUNSEL, STR). KLEIN HAD IMPRESSED ON RIVERS THE IMPORTANCE OF
ENSURING FAITHFUL TRANSLATION INTO US LAW OF CERTAIN SPECIFIC
POINTS IN THE COUNTERVAILING AND ANTI-DUMPING CODES, VIZ:

- (A) MATERIAL INJURY: KLEIN HAD TAKEN THE LINE THAT THERE WAS NO
REASON TO DEFINE QUOTE MATERIAL UNQUOTE. THE TERMINOLOGY IN GATT
ARTICLE VI WAS ADEQUATE. A NEGATIVE DEFINITION OF THE KIND UNDER
CONSIDERATION BY CONGRESS WOULD BE UNSATISFACTORY.
- (B) PROCEDURES FOR INITIATING A CASE: KLEIN HAD
STRESSED THE IMPORTANCE OF REFLECTING THE REQUIREMENT IN THE
CODE THAT THERE SHOULD BE QUOTE SUFFICIENT UNQUOTE EVIDENCE
TO LAUNCH A CASE.
- (C) TIME LIMITS: THE RIGID LIMITS UNDER CONSIDERATION BY THE US
SHOULD NOT BE INCONSISTENT WITH THE CODE, AND SHOULD PERMIT
EXTENSION IN COMPLICATED CASES.
- (D) DEFINITION OF INDUSTRY: THE DEFINITION UNDER CONSIDERATION
WENT BEYOND THAT IN THE CODE BY REFERRING TO DAMAGE NOT ONLY TO
DIRECTLY COMPETING PRODUCTS BUT ALSO TO LIKE PRODUCTS.
- (E) DEFINITION OF SUBSIDY: IT WAS IMPORTANT TO RETAIN THE TREASURY'S
DISCRETION IN CARRYING OUT THE CALCULATION.

4. KLEIN WAS CONFIDENT THAT THE COMMISSION'S POINTS HAD GONE HOME.
DENMAN SAID THAT ON 15 MAY HAFERKAMP HAD TELEPHONED STRAUSS TO REIN-
FORCE THESE POINTS, MAKING CLEAR THE THREAT TO THE MTNS IF THE US
LEADERSHIP WOULD NOT ACCEPT THE COMMISSION'S POINTS. STRAUSS HAD SAID THAT NO LANGUAGE

4. KLEIN WAS CONFIDENT THAT THE COMMISSION'S POINTS HAD GONE HOME. DENMAN SAID THAT ON 15 MAY HAFERKAMP HAD TELEPHONED STRAUSS TO REINFORCE THESE POINTS, MAKING CLEAR THE THREAT TO THE MTNS IF THE US LEGISLATION WAS UNSATISFACTORY. STRAUSS HAD SAID THAT NO LANGUAGE HAD YET BEEN AGREED: HE HAD BEEN IN LENGTHY DISCUSSION WITH RIVERS IN THE LIGHT OF KLEIN'S VISIT TO TRY TO FIND APPROPRIATE LANGUAGE. HE UNDERSTOOD HOW SERIOUS THE ISSUE WAS TO THE COMMUNITY, THOUGH HE STRESSED THE DIFFICULTIES VIS-A-VIS CONGRESS. HAFERKAMP HAD FLOATED THE POSSIBILITY OF A MESSAGE FROM JENKINS TO PRESIDENT CARTER, BUT STRAUSS HAD SAID THAT CONGRESS WOULD NOT BE RESPONSIVE TO SUCH A MOVE.

5. DENMAN SAID THAT, AGAINST THIS BACKGROUND, THE COMMISSION CONSIDERED THAT IT WOULD BE USEFUL FOR HAFERKAMP TO SEND A FURTHER WRITTEN MESSAGE TO STRAUSS THIS WEEK SETTING DOWN CLEARLY FOR THE RECORD THE MAIN POINTS WHERE IT WAS ESSENTIAL THAT US LEGISLATION GOT IT RIGHT. HE CIRCULATED A DRAFT TEXT.

6. THE FRENCH SAID THAT THE US ADMINISTRATION HAD NOT ATTACHED SUFFICIENT IMPORTANCE TO THE COMMUNITY'S PREOCCUPATIONS. NEXT WEEK'S NON-CONFERENCE COULD BE VITAL. THEY ACCORDINGLY FAVOURED A POLITICAL DEMARCHE, MADE JOINTLY BY THE PRESIDENCY AND COMMISSION THROUGH FORMAL DIPLOMATIC CHANNELS TO THE STATE DEPARTMENT. THEY CIRCULATED AN ALTERNATIVE TEXT. DENMAN SAID THAT STRAUSS WAS THE PRIME MOVER IN THE AFFAIR: IF A MESSAGE WAS SENT TO ANYONE ELSE AT THE PRESENT STAGE HE WOULD TAKE IT BADLY. STRAUSS HAD NOW REALISED THE IMPORTANCE OF THE ISSUE: THE KEY WAS SURELY TO GIVE HIM ALL THE NECESSARY INFORMATION, AND LEAVE THE HANDLING OF THE NON-CONFERENCE TO HIM. IF THE OUTCOME OF THAT NON-CONFERENCE WAS NOT SATISFACTORY, THERE WOULD STILL BE AN OPPORTUNITY TO SEND FURTHER MESSAGES, ET TO PRESIDENT CARTER, PRESSING FOR PARTICULAR POINTS TO BE CHANGED IN THE ACTUAL DRAFT LEGISLATION TO BE SUBMITTED TO CONGRESS.

7. ITALY, BELGIUM, THE UK AND GERMANY SUPPORTED THE COMMISSION LINE. BELGIUM AND THE UK SUGGESTED MAKING THE COMMISSION MESSAGE MORE POLITICAL BY INCORPORATING CERTAIN OF THE POINTS IN THE PRESIDENCY'S DRAFT. THE FRENCH WERE PREPARED FINALLY TO ACCEPT THAT STRAUSS SHOULD BE THE RECIPIENT OF ANY DEMARCHE, BUT STUCK TO THEIR POSITION THAT THE MESSAGE SHOULD TAKE THE FORM OF A FORMAL NOTE DELIVERED BY THE PRESIDENCY JOINTLY WITH THE COMMISSION. DENMAN FORMALLY OPPOSED SUCH A JOINT DEMARCHE, THOUGH HE WAS PREPARED FOR THE COMMISSION TO PRESENT THE MESSAGE AS A CONFLUENCE OF THE VIEWS OF THE COMMISSION AND THE MEMBER STATES. THE FRENCH STOOD THEIR GROUND AND DEFENDED THEIR POSITION.

NOTE DELIVERED BY THE PRESIDENT
DENMAN FORMALLY OPPOSED SUCH A JOINT DEMARCHE, THOUGH HE WAS
PREPARED FOR THE COMMISSION TO PRESENT THE MESSAGE AS A CONFLUENCE
OF THE VIEWS OF THE COMMISSION AND THE MEMBER STATES. THE FRENCH
STOOD THEIR GROUND, AND RESERVED THEIR RIGHT TO MAKE AN INDEPENDENT
DIPLOMATIC APPROACH TO THE USA.

8. PREVEL (FRENCH PRESIDENCY) ACCORDINGLY SUMMED UP IN THE TERMS OF
PARA 1 ABOVE.

FCO ADVANCE TO:

FCO - WILLIS (EID(E))
CAB - BIRCH
DOI - GENT (IIC)
DOT - ABRAMSON SUNDERLAND

MAITLAND

[ADVANCED AS REQUESTED]

NNNN



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