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Ref. A05367

MR. LANKESTER

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

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

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

REA

ROBERT ARMSTRONG

31st July, 1981

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PRIME MINISTER'S AD HOC MEETING, 3 AUGUST 1981

UNITED KINGDOM TRADE POLICY

BRIEF FOR THE PRIME MINISTER

BACKGROUND

FLAG A

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

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

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

FLAG B

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

FLAG D

FLAG C

3. The first of these earlier papers noted that

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- exports of goods and services accounted for about one third of the United Kingdom's GDP, and that our dependence on exports was higher than any other industrial nation of comparable size and much greater than that of the USA or Japan;
- responsibility for tariff/quota questions had passed to the Community under the Treaty of Accession;
- a wide range of import restraints already existed on textiles from low cost sources, on one third of our imports from Japan, on steel imports from the developing world, on footwear from South Korea and Taiwan, and on imports of most disruptive manufactures from Eastern Europe. Some took the form of industry to industry voluntary agreements, not subject to Community control; others were negotiated on our behalf by the Community.

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

  
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FLAG E

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

FLAG F

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

← accelerated payment of VAT on imports, a Community ban on the import of leather containing sperm whale oil, the introduction of a national type approval scheme for commercial vehicles, and the development of new national safety standards.

Community constraints

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

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

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

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

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

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

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

Whitehall machinery

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

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



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

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HANDLING

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

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

- (i) How far should we push for Community agreement to greater national freedom of action against imports from third countries? (Paragraphs 7 and 8 above.)
  
- (ii) What scope is there for action against imports from other EC countries, through import controls, more effective Commission action against illegal state aids, or through administrative means? (Paragraphs 9 and 10 above.)
  
- (iii) Is there a need for new or different co-ordinating machinery in Whitehall? (Paragraphs 11 and 12 above.)

CONCLUSION

15. Subject to discussion you may wish to conclude

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



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

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

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

Cabinet Office SW1

31 July 1981