



Prime Minister

UNITED KINGDOM TRADING POLICY

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

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

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



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

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

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

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

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

1.4.9.

31 July 1981

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