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cc: Trade  
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cc: Alan Walters,

SUBJECT



10 DOWNING STREET

From the Private Secretary

9 September 1981

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United Kingdom Trading Policy

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

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

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

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

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

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

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

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

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

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

J. E. LANKESTER

John Kerr, Esq.,  
HM Treasury

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