

CONFIDENTIAL



From the Secretary of State

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

p/w ~~briefs~~ *briefs*
Paul

22 September 1981

Dear Michael

In reply to your letter of 15 September to John Rhodes, I attach a brief on the paper forwarded by the Prime Minister of Australia on the impact of protection on developing country trade.

Copies go to Roderic Lyne (FCO), John Kerr (HM Treasury), Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours sincerely
Catherine Capon.

Taken to Australia

CATHERINE CAPON
Private Secretary



COMMONWEALTH HEADS OF GOVERNMENT MEETING

IMPACT OF PROTECTION ON DEVELOPING COUNTRY TRADE

ANNEX A Note on Australian paper forwarded 15 September

LINES TO TAKE (as necessary)

General

1 The UK needs no persuading of the benefits - Conclusion 5 of the paper - of removal of barriers to trade. The more open the world trading system is, the more the benefits to developed and developing countries alike. By contrast protectionism, whoever practices it, leads to inefficiency, lack of consumer choice and pushes inflation upwards.

2 There are established negotiating mechanisms available to work towards a more open world trading system. But there must be an underlying sense of give and take if these are to be effective. Developing countries that keep a full measure of protection for themselves cannot expect an entirely favourable reaction from developed countries to demands for their barriers to be lowered.

Gatt Agreements

3 The negotiations of the 1979 GATT non-tariff agreements took the maximum possible account of the needs of developing countries. Most agreements contain special and differential provisions for them. These recognise that developing countries may not be able to implement the terms of the agreements with the same speed or facility as developed countries. They also contain provision for technical and advisory assistance. Developing countries took a full part in the negotiations and participate as observers in the operation even of agreements they are not ready to accept.

Tariffs

4 The GATT studies show that broadly the EC treats developed and developing countries even-handedly. The higher tariff average for developing countries' industrial export products (5.7% versus 4.7%) is due largely to exports to the US - for the EC the figures are 4.7%



both for all industrial products and those of export interest to developing countries.

Agriculture

5 Agricultural arguments in the paper unsound. Under EC and other developed country agricultural support policies, the main effect of protection is on other developed countries, not on developing countries. The EC variable levies are of much greater impact on imports of produce of other developed countries than on those of developing countries.

6 EC's external agricultural policies actually discriminate in favour of developing countries eg Lome convention preferences, the agreements with Mediterranean countries and tariff reductions under the Generalised Scheme of Preferences. The UK is fighting hard within the EC to get the problem of surplus production under control, and to enlarge access to EC market for produce of the developing world.

7 (If appropriate). It is not in the best interests of developing countries to have their claims for better access to developed country markets championed (and exaggerated) by a developed country with known interest of its own in greater access to those markets. They should recognise that the EC is now largely self-sufficient in most temperate products. Greater imports are only possible at the expense of reduced standard of living of EC's own producers.

8 (If raised). The UNCTAD work is by its secretariat only. No conclusions on effective levels of tariff protection have yet been reached by the UNCTAD as such.



BACKGROUND

9 Australia is probably raising this issue in support of its continuing pressure against the CAP and other developed country agricultural mechanisms. Its own record of protection of its domestic industry has many critics, including the EC and developing countries. It looks as if Australia, with New Zealand and perhaps under US leadership, will mount a further assault on the CAP in the GATT in 1982. To seek support at the CHOGM with a paper that is strong in emotion and weak in substance seems ill-considered.

Gatt Agreements

10 79 developing countries took part in the Tokyo Round negotiations but only 20 have since signed or shown serious interest in any of the 12 agreements. Some may have been put off by a row between the US and India about export subsidies. Among developed countries that participated, the signature rate has been very much higher. Australia has so far signed 6, and should be encouraged to sign more. Countries which have not signed the agreements have observer status and a number of leading developing countries take full advantage of this. However, accession to the agreements is obviously a more effective means of playing a full part in their implementation and development.

Tariffs

11 The Australian paper draws on a GATT assessment of the Tokyo Round to support its claim that developing countries have not benefitted as much as developed ones from the Tokyo Round Tariff cuts on industrial products. The report concerned does, indeed, indicate that the average tariff cuts on products of export interest to developing countries were less than the average cut for all industrial products. This is true of cuts in the tariffs of the EC and of cuts in the US and Japanese tariffs. However, the same report shows that under the resulting tariffs the EC treats developing and developed countries even-handedly. Its average tariff levels will be equal, at 4.7%, for industrial products as a whole and for products of interest to developing countries. In this the EC treatment of developing countries is certainly better than the treatment meted out by the US, where the corresponding levels are 4.4% and 7.9% respectively.

Agriculture

12 Nearly half the EC's total agricultural imports come from developing countries; and of the EC's trading deficit in the agriculture sector, the greater part is accounted for by the adverse balance of trade with developing countries. About 50% of all the developing countries' agricultural exports come to the EC. Only 11% of all the EC's agricultural imports from developing countries are subject to variable levies, reference prices or similar devices protecting European producers.



13 The EC's Generalised Scheme of Preferences covers 313 agricultural products (mainly processed or semi-processed). These account for some 25% of all imports under the GSP. The average margin of preference was calculated as 7.3% in 1977. (Within the Community the UK has consistently striven for greater tariff cuts, and for additions to the range of products covered).

14 As a result of the Lome Conventions, the EC's imports of agricultural products from the ACP countries have risen at a faster rate over the last decade than those from the rest of the world. They now account for about 14% of total EC agricultural imports, as against 11% in 1973. The Lome Convention also provides for substantial and secure markets in the EC for such produce as sugar, bananas and rum. Agricultural imports from the Mediterranean countries, on the other hand, are declining as a proportion of EC total agricultural imports - from about 6% in 1973 to 3½% in 1979.

Department of Trade
22 September 1981

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