

CONFIDENTIAL

42622 - 2

GRS 1152

CONFIDENTIAL

FM FCO 231700Z DEC 81

TO PRIORITY CERTAIN MISSIONS AND DEPENDENT TERRITORIES  
GUIDANCE TELEGRAM NUMBER 169 OF 23 DECEMBER 1981

GUIDANCE TELEGRAMS NOS 124 AND 158  
EXTENSION OF THE MULTI-FIBRE ARRANGEMENT (MFA)

1. NEGOTIATIONS IN THE GATT CONCLUDED ON 22 DECEMBER WITH THE ADOPTION BY CONSENSUS OF A NEW PROTOCOL EXTENDING THE MFA FOR A FURTHER FOUR YEARS AND SEVEN MONTHS (IE FROM 1 JANUARY 1982 TO 31 JULY 1986). SPEAKING FOR THE EUROPEAN COMMUNITY THE COMMISSION STATED THEY WOULD RECOMMEND TO THE COUNCIL OF MINISTERS THAT THE PROTOCOL SHOULD BE ACCEPTED FOR THE TIME BEING, BUT THAT CONTINUED EC PARTICIPATION IN THE MFA BEYOND THE END OF 1982 WOULD DEPEND ON THE NEGOTIATION OF SATISFACTORY NEW BILATERAL AGREEMENTS WITH THE INDIVIDUAL SUPPLIER COUNTRIES CONCERNED. THESE NEGOTIATIONS WILL TAKE PLACE DURING THE COURSE OF 1982 (THE COMMUNITY'S EXISTING BILATERALS UNDER THE PREVIOUS MFA RUN UNTIL THE END OF NEXT YEAR). THE TEXT OF THE STATEMENT TO PARLIAMENT BY THE SECRETARY OF STATE FOR TRADE IS BEING TELEGRAPHED SEPARATELY BY THE COI TO POSTS IN SUPPLIER COUNTRIES.

LINE TO TAKE

2. IF THE SUBJECT IS RAISED WITH YOU, YOU SHOULD SAY THAT THIS OF COURSE IS A QUESTION FALLING ENTIRELY WITHIN COMMUNITY COMPETENCE AND THAT THE COMMISSION HAS NEGOTIATED ON BEHALF OF THE COMMUNITY AS A WHOLE, ON THE BASIS OF AGREED COMMUNITY POSITIONS. MEANWHILE WE REMAIN STRONGLY IN FAVOUR OF CONTINUING TO TRY TO RESOLVE THE SPECIAL PROBLEMS OF THE TEXTILES SECTOR BY MUTUAL AGREEMENT. WE THEREFORE WELCOME THE OUTCOME OF THE NEGOTIATIONS ON THE EXTENSION PROTOCOL (AND APPRECIATE THE HELPFUL ROLE PLAYED BY ASEAN AND HONG KONG IN PARTICULAR AMONG THE DEVELOPING COUNTRY SUPPLIERS). A NUMBER OF ISSUES REMAIN TO

1  
CONFIDENTIAL

/BE

BE RESOLVED IN THE BILATERAL NEGOTIATIONS. THESE WILL NEED TO BE APPROACHED IN A SPIRIT OF REALISM SINCE THE INCREASING DIFFICULTIES BEING FACED BY THE EC TEXTILE INDUSTRY (NOT LEAST IN THE UK) MEAN THAT THE COMMUNITY'S ROOM FOR MANOEUVRE IS BOUND TO REMAIN LIMITED. BUT NATURALLY WE HOPE THAT NEW BILATERAL AGREEMENTS CAN BE CONCLUDED, AS QUICKLY AS POSSIBLE, ON MUTUALLY ACCEPTABLE TERMS.

3. YOU SHOULD CONTINUE TO RESIST ANY ATTEMPT TO IDENTIFY THE UK AS THE LEADING 'HAWK' WITHIN THE COMMUNITY, STRESSING THAT ON ISSUES SUCH AS THIS THE COUNCIL OF MINISTERS PROCEEDS ONLY BY CONSENSUS AND THAT THE COMMISSION'S NEGOTIATING MANDATE THEREFORE HAS THE SUPPORT OF ALL MEMBER STATES.

4. YOU SHOULD ALSO CONTINUE TO AVOID BEING DRAWN INTO DISCUSSION OF POINTS OF DETAIL, MAKING IT CLEAR THAT THESE ARE ISSUES FOR NEGOTIATION WITH THE COMMISSION.

5. IF IT IS SUGGESTED THAT BY RESERVING THE RIGHT TO WITHDRAW FROM THE MFA IN THE ABSENCE OF SATISFACTORY NEW BILATERAL AGREEMENTS THE COMMUNITY IS THREATENING TO RENEGE ON REPEATED COMMITMENTS TO RESIST PROTECTIONIST PRESSURES AND PRESERVE THE OPEN TRADING SYSTEM, YOU SHOULD SAY THAT WHILE NO-ONE UNDERESTIMATES THE SERIOUSNESS OF THE SITUATION, IT IS IMPORTANT NOT TO OVER-DRAMATISE IT EITHER. THE BASIC (1973) MFA TEXT PROVIDES FOR ANY PARTICIPATING COUNTRY TO WITHDRAW AT 60 DAYS' NOTICE. OTHER DEVELOPED COUNTRIES (AUSTRALIA, NORWAY) HAVE OPERATED OUTSIDE THE MFA AND HAVE USED NORMAL GATT RULES TO RESTRAIN IMPORTS OF TEXTILES. IT CAN BE ARGUED THAT THEY HAVE IN FACT THEREBY OBTAINED MORE EFFECTIVE PROTECTION, BUT AT THE COST OF CREATING UNCERTAINTY WHICH HAS BEEN DETRIMENTAL TO THE INTERESTS OF SUPPLIER COUNTRIES. IT WOULD NOT BE PROFITABLE TO SPECULATE ABOUT WHAT MIGHT HAPPEN IF THE COMMUNITY, BY FAR THE LARGEST IMPORTER OF LOW-COST TEXTILES IN THE WORLD, HAD TO TAKE SIMILAR ACTION. OUR PREFERRED OPTION, REFLECTED IN THE COMMISSION'S NEGOTIATING MANDATE, IS TO REMAIN WITHIN THE MFA

CONFIDENTIAL

42622 - 2

FRAMEWORK. BUT OBVIOUSLY THE COMMUNITY CANNOT COMMIT ITSELF TO DOING SO BEFORE WE KNOW WHETHER THE DEAL ON OFFER IS ACCEPTABLE.

BACKGROUND (TO BE DRAWN ON AS APPROPRIATE EXCEPT WHERE INDICATED)

(A) EC FOREIGN AFFAIRS COUNCIL 8 DECEMBER

6. THE DECEMBER COUNCIL CONFIRMED AND CLARIFIED THE DECISIONS TAKEN BY MINISTERS THE PREVIOUS MONTH (GUIDANCE TELNO 158). IN PARTICULAR IT BECAME CLEAR THAT CUTBACKS ON THE SO-CALLED ''DOMINANT'' SUPPLIERS (HONG KONG, SOUTH KOREA, MACAO - PLUS TAIWAN, NOT A PARTY TO THE MFA) WOULD HAVE TO BE INCLUDED IF THERE WAS TO BE AGREEMENT ON A COMMUNITY POSITION. THE POSSIBILITY WAS KEPT OPEN OF COMPENSATING CUTBACKS BY NEW QUOTAS FOR OUTWARD PROCESSING TRADE. (OUTWARD PROCESSING IS THE EXPORT OF CLOTH WOVEN IN THE COMMUNITY TO LOW COST SUPPLIER COUNTRIES WHERE IT IS MADE UP INTO GARMENTS WHICH ARE SUBSEQUENTLY REIMPORTED). THE EXTENT OF SUCH COMPENSATION REMAINS TO BE DECIDED.

7. (FOR YOUR OWN INFORMATION ONLY). AT THE DECEMBER COUNCIL FRANCE AND ITALY AGAIN TOOK THE LEAD IN ARGUING FOR AN EXTENSION OF THE LIST OF DOMINANT SUPPLIERS TO INCLUDE SUCH COUNTRIES AS BRAZIL, SINGAPORE AND ROMANIA. ON THIS THEY RECEIVED SUPPORT ONLY FROM IRELAND. THEY ALSO ARGUED FOR A DEEPER CUTBACK ON THE ''DOMINANTS'' THAN OTHER MEMBER STATES ENVISAGED. THIS LATTER QUESTION REMAINS UNRESOLVED AND WILL COME BACK TO THE 25 JANUARY COUNCIL.

(B) NEGOTIATIONS ON MFA EXTENSION PROTOCOL

8. NEGOTIATIONS PROVED PREDICTABLY DIFFICULT. AMONG THE DEVELOPING COUNTRIES THE ASEAN GROUP (NONE OF WHOSE MEMBERS WERE INCLUDED IN THE COMMUNITY'S LIST OF ''DOMINANT'' SUPPLIERS) WERE HELPFUL IN PROPOSING PROTOCOL LANGUAGE WHICH TRIED TO TAKE SOME ACCOUNT OF EC OBJECTIVES. HONG KONG PLAYED A KEY ROLE THROUGHOUT THE NEGOTIATIONS AND WAS PARTICULARLY CONSTRUCTIVE IN AGREEING AN EXCHANGE OF SIDE LETTERS WITH THE COMMISSION WHICH ENVISAGES A ''MUTUALLY ACCEPTABLE'' BILATERAL ARRANGEMENT ON CUTBACKS. THIS

3

CONFIDENTIAL

/ENABLED

CONFIDENTIAL

42622 - 2

ENABLED THE COMMUNITY TO ACCEPT AN OPAQUE FORMULA IN THE EXTENSION PROTOCOL WHICH HONG KONG NO DOUBT HOPES WILL AVOID DEMANDS FOR CORRESPONDING CUTBACKS FROM THE US. AS A RESULT OF HONG KONG'S ACTION THE COMMISSION WERE ABLE TO SECURE COMPARE E COMMITMENTS FROM SOUTH KOREA AND MACAO.

(C) EC FOREIGN AFFAIRS COUNCIL: 25 JANUARY 1982

9. THE JANUARY COUNCIL WILL BE INVITED BY THE COMMISSION TO ADOPT A DECISION ACCEPTING THE NEW EXTENSION PROTOCOL FOR THE TIME BEING, BUT AT THE SAME TIME MAKING PROVISION FOR EC WITHDRAWAL FROM THE MFA AT THE END OF 1982 UNLESS, BEFORE THEN, THE COUNCIL TAKES A FURTHER DECISION TO THE CONTRARY IN THE LIGHT OF PROGRESS IN NEGOTIATING THE NEW BILATERAL AGREEMENTS. THE JANUARY COUNCIL WILL ALSO HAVE TO EXAMINE NEW FIGURES FOR THE INTERNAL ''GLOBAL CEILINGS'' WHICH SET AN UPPER LIMIT ON TOTAL IMPORTS OF EACH OF THE MOST SENSITIVE CATEGORIES OF TEXTILE PRODUCTS FROM ALL LOW COST SOURCES. OTHER ASPECTS OF THE COMMISSION MANDATE FOR BILATERAL NEGOTIATIONS WITH INDIVIDUAL SUPPLIER COUNTRIES REMAIN CONDITIONAL UPON GLOBAL CEILING FIGURES PROVING SATISFACTORY.

(D) OUTLOOK BEYOND JANUARY

10. THE PROSPECTS FOR A SUCCESSFUL OUTCOME NOW DEPEND ON THE NEGOTIATIONS WHICH THE COMMISSION WILL UNDERTAKE WITH EACH INDIVIDUAL SUPPLIER COUNTRY. THE AIM IS THAT THE COUNCIL SHOULD REVIEW THE RESULTS IN EARLY AUTUMN 1982 (I.E. THE SEPTEMBER COUNCIL) AT THE LATEST.

CARRINGTON

BY TELEGRAPH:

BELGRADE  
GENEVA(UKMIS)  
BUCHAREST  
BUDAPEST  
PRAGUE  
SOFIA  
MEXICO CITY  
BRASILIA  
RIO DE JANEIRO

BOGOTA  
LIMA  
MONTEVIDEO  
CAIRO  
BANGKOK  
JAKARTA  
ISLAMABAD  
MANILA  
PEKING

SEOUL  
NEW DELHI  
DACCA  
COLOMBO  
KUALA LUMPUR  
SINGAPORE  
KINGSTON  
B.T.C. HONG KONG

[ALL PRIORITY]

AND SAVING TO CERTAIN OTHER POSTS

FCO/WHITEHALL  
INFORMATION D

ADDITIONAL DISTRIBUTION  
GUIDANCE

-4-

CONFIDENTIAL