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N. B. P. R.

FCS/82/168

AN 28/10

SECRETARY OF STATE FOR TRADE

PREPARATIONS FOR THE GATT MINISTERIAL MEETING:

DISCUSSION AT THE FOREIGN AFFAIRS COUNCIL - 25/26 OCTOBER

Thank you for your letter of 21^{altered} October. I think the general thrust of the line you propose Peter Rees should take at the Foreign Affairs Council is admirable. It is reasonable without being unrealistic and emphasises our proper concerns. I particularly welcome what you say on developing countries. The Community, and in particular the UK, already has a respectable record on market access for the LDCs, but it is right that we should look for ways of doing whatever else we can for the poorest. At the same time we must urge on the Community the importance of an effective approach to the problem posed by the unfair and unnecessary barriers to our exports maintained by increasingly prosperous NICs. Hong Kong and Singapore have already demonstrated that industrial development is not dependent on a highly protected market. Others must be brought to appreciate the merits of following their example.

I appreciate that in outlining our position in your letter you have kept to the bare essentials. In putting our views to the Council I hope it will be possible for Peter Rees to take account of the following additional comments.

/ (a)

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- (a) Although safeguards are, as we have agreed in earlier correspondence, an over-worked subject, they remain highly sensitive politically. I think therefore that we should continue to express willingness to explore any ideas which are, on balance, potentially helpful to our concerns and which could have important presentational advantage. Depending on the exact nature of the proposals, something on transparency could come into this category.
- (b) On dispute settlement we need to work for a position which can command consensus in the EC, while still offering the prospect of some increased leverage on the US. We agree that the status quo is unsatisfactory in this respect. We should therefore look for a formula which offers the minimum reassurance necessary for Member States concerned about the implications for the CAP, while enabling them to drop the total opposition they have expressed to any meaningful reform of the GATT machinery.

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I understand that our officials have agreed briefing for the Foreign Affairs Council should be prepared on this basis.

Copies of this minute go to the Prime Minister, to other members of OD(E) and to Sir Robert Armstrong

A handwritten signature in dark ink, appearing to be 'FP', with a small dot below the 'P'.

(FRANCIS PYM)

Foreign and Commonwealth Office

25 October 1982

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Trade

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From the Minister

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The Rt Hon Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1H 0ET

Prime Minister

A.J.C. 27/10

22 October 1982

As attached

GATT MINISTERIAL MEETING

I have seen your letter to Francis Pym of 21 October ^{will request is required} about the discussion of the GATT Ministerial Meeting at FAC on 25/26 October.

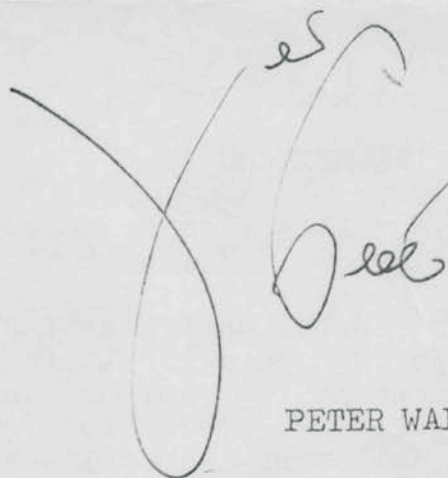
I accept your general analysis of the proceedings of the official GATT Committee CG18 on agriculture and the prospects for an agreement at the Ministerial Meeting. It looks as if a compromise will be possible on a review body (if the Americans insist that it cannot be called an "Agriculture Committee") to survey all practices relevant to agricultural trade, and report back in one or two years. Such a procedural decision would be, I am sure, the best solution not merely as a way of relieving immediate pressure on the EC from the US, and hence perhaps contributing to an improvement in bilateral relations with them, but also and more importantly in that it would remove the inequitable impression that it is only the CAP which causes distortion in international trade.

The US also supports its agriculture, benefiting by its waiver from blanket exemption from GATT rules, and many of its current criticisms of the CAP are undeniably exaggerated. Australia too has been taking such an extreme and uncompromising line in GATT and elsewhere recently, as to embarrass moderates such as New Zealand.

/My Department ...

My Department fully accepts the need for a thoroughgoing reform of the CAP but, as you point out, to achieve this we must adopt a sufficiently compromising line to carry our Community partners with us. In this context I do not entirely understand your reference to "doing nothing to impede the maximum pressure being brought on the CAP at the GATT Ministerial". We would certainly lose credibility with our partners if we even passively encouraged some of the more exaggerated US and Australian criticism of the CAP.

I am copying this letter to the Prime Minister, Francis Pym and other members of OD(E) and to Sir Robert Armstrong.

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

PETER WALKER

P.S. There are only 2 countries
with a more protectionist
position than the CAP. —
USA and Australia !!



cc PS/MfT
PS/Secretary
Mr Gray, Dep Sec
Mr Sunderland, OT 2
Mr R Williams, ITP
Mr Meadway, ITP 1
Mr Stone, ITP 1
Miss Brimelow, ITP 1

From the Secretary of State

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The Rt Hon Francis Pym MC MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

21 October 1982

Francis

THE GATT MINISTERIAL MEETING

We expect a substantial discussion on the GATT Ministerial Meeting at the Foreign Affairs Council in Luxembourg on 25/26 October which Peter Rees will be attending.

Our discussions on trade policy in the E Committee take place during the Luxembourg meeting, but colleagues will want to know what line we shall be taking on the main issues.

It is difficult even now to be certain what the precise issues in Luxembourg will prove to be. The Commission is this week engaged in almost continuous formal and informal discussion in Geneva on the basis of general orientations agreed by the July FAC. (The United Kingdom line for that meeting was settled in correspondence finishing with my letter to you of 19 July.)

I attach a short note by my officials summarising the main developments inside and outside the EC since the summer break, and focus on those points that may cause the most difficulty in the final run-up to the GATT Ministerial meeting.

In summary our line on these issues is as follows:-

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From the Secretary of State

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- (a) We cannot agree to an explicit ceasefire on new protective measures because we may wish to introduce some such measures (including against countries, such as Australia, which maintain heavy restrictions against our exports). We could agree, for what it is worth, to some new broad trade pledge on efforts to resist protectionist pressures.
- (b) We cannot abandon our claim that Article XIX permits safeguard measures to be taken on a selective basis, ie against import surges from particular countries. Unless we have this possibility the basis for seeking restraints, by so-called grey area measures, will be much reduced. And we shall continue to argue that, far from undermining the GATT, restraint arrangements avoid the worse tensions that formal measures would create.
- (c) On agriculture, we shall do nothing to impede the maximum pressure being brought on the CAP at the GATT Ministerial. But, unless the Germans and others do so, we shall not openly urge a more forthcoming Community line on agriculture because this would impede rather than further our aim of internal reform of the CAP.
- (d) On the developing countries, we shall be ready to scrape the barrel for further concessions (on tropical products not textiles) for poor countries. But we shall continue to argue, with the Americans, that the newly industrialising countries (NICs) must progressively apply GATT rules. The idea that NICs

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From the Secretary of State

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should phase themselves in through new negotiations is naturally vigorously opposed by the whole Group 77. The truth is that the days of largesse for the developing world, while they take no obligations in return, are over. In the end we may have to settle for a feasibility study, but we should take the line that this should be completed quickly.

- (e) We shall support improvement in dispute settlement procedures - more conciliation and decisions to be taken by consensus in which the parties in dispute would normally not participate. This could be helpful to us on American sins - and also on Community sins which are mostly in the agricultural area. But we must support the view that, in the last resort, a Contracting Party should have a veto where GATT action against it is involved.

- (f) We must support a GATT study of service industries where the Americans are more enthusiastic than our Community partners. And the G 77 flatly against the idea.

I must add three points:-

- (i) It is obvious that the whole climate may be further affected by developments in EC/United States disputes - including on steel and the Pipeline.

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From the Secretary of State

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(ii) The Foreign Affairs Council will also be considering how to maintain pressure on Japan (the next steps in the Article XXIII procedures). At the same time, as I said in my letter of 19 July, we must urge that the Political Declaration of the GATT Ministerial Meeting should make some referenceto problems raised by Japan.

(iii) The G 77 are said to be becoming less enthusiastic about a GATT Ministerial which they earlier saw as an opportunity to bring pressure on the developed world (including on MFA textiles which is also on the FAC agenda). They do not like the firm stands being made on safeguards, the demands that the NICs should apply the GATT, or the proposal to extend the GATT into services. We must do our best to get a balanced settlement because a failed GATT Ministerial could have repercussions on the whole world trade and payments structure. But we cannot go for a success based on giving up our legitimate requirements.

That is the position as I see it. I hope that during the first fortnight in November the key questions will become sufficiently clear for me to be able to put to colleagues proposals on how we may best use the opportunities provided by the Ministerial Meeting to progress in the right direction on some of our current concerns.

One last point, there is some informal talk about a further GATT Ministerial perhaps in 1985. I do not think we should oppose this, especially if the prospect of another such meeting averted the feeling of breakdown in GATT.

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From the Secretary of State

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I am sending copies of this letter to the Prime Minister, to the Members of OD(E) and to Sir Robert Armstrong.

*Yours,
Arthur*

LORD COCKFIELD

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GATT MINISTERIAL MEETING 1982: DEVELOPMENTS SINCE JULY

Note by the Department of Trade

At the end of July the Chairman of the Preparatory Committee issued a document which brought together all the proposals that had been tabled. On most issues it incorporated the maximal hopes of protagonists. At this stage there was little consensus about what the meeting might achieve and the negotiation necessary to reduce the maximal demands to what there could be consensus on had scarcely begun. This started in the latter half of September and has been fully engaged ever since. Developments on the main topics are briefly summarised below.

POLITICAL DECLARATION

This is seen as a text in which Ministers re-affirm their commitment to the world open trading system, and its strengthening in very difficult times. Its drafting is however interlinked with the specific commitments on particular points Ministers might be prepared to undertake. Following a detailed and premature initiative in May by Mr Fraser, the Australian Prime Minister, a more general idea of a ceasefire or standstill on measures increasing the tendency to more protection or to an unravelling of the whole open trade system, gained ground in September. However the first text (dated 27 September) incorporating these ideas into a political declaration proved over-ambitious in the extent of the changes envisaged regarding policy in sensitive areas such as textiles, agriculture and safeguard and grey area measures: some of the drafting raised major problems for the United Kingdom. The Community decided in early October to throw its weight towards less specific commitments, at a realistic level which governments could credibly be expected to observe in present circumstances. However, the latest text circulated in Geneva bears little sign of Community success in this field as yet. We continue to press the Commission to try to get in language pointed specifically at the problems Japan creates for the world trading system, but most Member States do not see this as a priority.

In spite of the deeply divergent basic positions, informal discussions on a detailed safeguards agreement continued in August. In September the Commission secured the more or less reluctant acquiescence of the Member States in advancing a limited version of unilateral selectivity securing some recognition of which has been EC policy since 1978. This phase of negotiations apparently finished around the end of September when the developing countries, not seeing any benefit for them in any achievable safeguards agreement, rejected not only unilateral selectivity but consensual selectivity (ie with the agreement of the party concerned).



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The political priority of the subject is such that, some delegations seem unable to face failure, however, and informal discussions continue, if only in search of enough agreement to save face and avoid having to admit complete failure publicly. The Commission favour further study of the catalogue of safeguard measures and grey area measures. The Danish Presidency are pressing that the EC should throw its hand in completely on unilateral selectivity, but the great weight of opinion favours maintaining the EC's position on this, even if others will not accept it. The issue will certainly figure strongly in discussion at the October FAC.

AGRICULTURE

During the meeting of the CG18 (6/8 October), there were signs of a developing consensus for a solution based on: more transparency; examination of measures relating to access to markets, export subsidies and assistance and national agricultural policies; an examination of the balance of rights and obligations in this sector including waivers and other exceptions; development where necessary of common understandings of the scope of GATT provisions, and establishment of a committee to do this work. Drafting of a text remains a very delicate task. Both the Commission and the United States have been too ready to assert extreme positions as "bottom line". The possibility under GATT Article XVI.5 of reviewing industrial subsidies in parallel has been raised, perhaps only tactically. It does look as if in this sector a possible route to agreement, albeit across a tightrope may be appearing.

DEVELOPING COUNTRIES

The objectives of developing countries include better access for tropical products, reduction or elimination of quantitative restrictions and of the effects of tariff escalation, and a return to normal trade rules in the textile sector. Developed countries are keen to get better access to NIC markets and the United States has sought to get this by direct use of the lever of threatening withdrawal of GSP access. The EC has agreed upon a three point plan: specific measures in favour of the least developed countries, support for developing countries' efforts to develop mutual preferences, and a "feasibility study" to see whether a basis can be found for a round of negotiations later, in which reciprocity would be required from those capable of it, eg the NICs. On the one side tariff escalation and tropical products requests, and on the other side progress towards graduation could be worked into this approach. Although a slower route than we would wish, it appears the only realistic one at the moment for progress at the multilateral level towards persuading NICs to open up their domestic markets, giving opportunities to advance these objectives in the medium term.

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DISPUTE SETTLEMENT

We attach importance to progress in this area, as the delaying tactics employed by the United States defending their illegal export subsidy scheme (DISC) have brought the system into some disrepute. Agreement on strengthening conciliation to facilitate agreements which will avoid formal panels appears possible. More difficult is the question of the consensus forming mechanism. The question is how the party found against can be prevented from blocking consequent GATT action: The Commission approach is that panel reports which amount to new GATT obligations should not be binding on those who disagree, but in other cases there should not be a veto. There had appeared to be an agreed EC position but on 15 October Belgium led a group of Member States (who have in common defensiveness about aspects of the CAP) in insisting that the party found against should have a veto. The point may go to the October FAC.

SERVICES

Here the United Kingdom shares the modified United States position, according to which the GATT should start studies on services, with, to our mind, a view to possible later liberalisation negotiations. The rest of the EC are much cooler. This is now politically a top priority for the United States; it remains to be seen whether and how they can overcome continuing developing country opposition to GATT beginning to move into the services field, which would be a new one for it.

19 October 1982

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