



Foreign and Commonwealth Office

London S.W.1

3 December 1984

C D Powell Esq  
No 10 Downing Street

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*Dear Charles,*

EUROPEAN COUNCIL: US/EC: PIPES AND TUBES

Chancellor Kohl raised the issue of steel pipes and tubes forcefully during his visit to Washington and the US have as a result agreed to reopen talks with the EC Commission about them. This follows the failure last week of EC/US consultations on quantitative limits on EC exports, the unilateral imposition of limits by the US and the denunciation by the EC of the EC/US exchange of letters on the subject. The issue may be discussed at Dublin. The following paragraphs give the background.

The EC/US carbon steel arrangement of October 1982 controlling EC steel exports to the US was accompanied by an exchange of letters on pipes and tubes. This did not contain a binding commitment on EC pipe and tube exports but rather a forecast market share taken by EC exports of the US market of 5.9%; beyond this the US could seek consultations. In 1983 and even more in 1984 (helped by the high dollar) EC pipe and tube exports to the US rose well above this (14% in the first half of 1984). The main culprits were Germans, French and Italians). The US Administration entered into consultations with the EC in April to agree on a level of import penetration by which the EC industry would abide. EC Industry Ministers on 22 November approved the terms of a deal negotiated informally and ad referendum between Davignon and Brock (USTR). According to Davignon it was cleared textually with senior US officials.

The main components of this agreement were

- a) 2 year duration
- b) 7.6% ceiling on EC penetration of US market
- c) exemption (insisted on by Germans) for supplies from Hoesch to their US joint venture partner
- d) exemption for contracts to supply major pipeline projects

Despite the textual clearance, the US replied to Davignon in stiff terms on 27 November rejecting the agreement as unacceptable to their industry and imposing the 5.9% figure in the 1982 exchange of letters. This meant the immediate cessation of EC exports. In Washington the Administration made disobliging public noises about the EC not negotiating seriously. The Foreign Affairs Council on



27 November

- a) on Davignon's recommendation denounced the 1982 exchange of letters
- b) on Mr Rifkind's proposal, issued a statement regretting the US action and reserving the EC's GATT rights

Davignon's point about denunciation of the exchange of letters was that the US Trade and Tariff act (passed just before the US election) authorised the President to make mandatory the 5.9% figure in the 1982 exchange of letters. Denunciation, the argument went (though doubted by BSC's US lawyers and ignored by the Administration), would remove the legal basis for imposing the 5.9% limit. The Community has now to consider its next steps both with the US and in the GATT.

The dispute is only one of a number of EC/US trade disputes, including in steel. The US have behaved badly in so abruptly repudiating a draft agreement negotiated in good faith with them. Equally the EC producers (but not British) have brought retribution on themselves by so greedily exceeding the admittedly only indicative - but very specific - figure in the 1982 exchange of letters. The dispute need not endanger the main EC-US Carbon Steel arrangement or spill more widely: but its continuation would lead to legal proceedings, anti-dumping and countervailing cases in the US and to retaliation of compensation is not paid in the GATT. This process could in turn lead to damaging wider consequences e.g. in EC pressure to retaliate against US corn gluten feed and soya exports.

So it is welcome that the Americans are prepared to reconsider. Our interest is, like Chancellor Kohl's, in getting the US back to the negotiating table; and, in any such negotiation, to ensure that the UK's share is cut back less, and certainly no more, than pro-rata with any new figure lower than 7.6%. (The UK share of 7.6% would have been 0.42%).

I am copying this to the Private Secretary to the Minister for Trade.

*Yours ever,*

cc: PS/Mr Channon

*Colin Budd*