

PRIME MINISTER

I. TRADE POLICY

The suggestions from the Department of Trade seem to us to be disingenuous, ill-thought-out and, if followed up, likely to prove counter-productive. They might well serve to prolong depression and weaken Britain's trading position.

Alan Walters points out that the measures do not correspond to the conclusion of the last meeting that "a generally open trading system was in the United Kingdom's interests", since for the most part they are concerned with negotiating Voluntary Restraint Agreements (VRAs) with other countries to protect our own industries.

We risk genuine retaliation in return for puny or phoney gains, particularly with trigger-happy NICs.

Alan also points out that

"... the measures directed against countries such as Korea and Brazil are particularly inappropriate. Brazil has one of the biggest debt problems in the world, rivalling that of Mexico. The only way she can pay her debts is to export and export again and again. If she is not allowed to export those goods in which she has a relative advantage (surely shoes are one) then she will have not merely an incentive, but also some moral right in repudiating her debts. In fact it is unlikely that there will be an outright default; what will happen is we will give them the money in order to pay off their debts, instead of allowing them to earn the money by exporting".

We are a major trading nation. In fact, we are the major trading nation, as far as proportion of GNP exported goes. If we are seen to be taking the lead in an EC move towards protection, we shall be doing ourselves down. Surely one of our reasons for joining the EC was to make it more outward-looking.

Japan

- i. Even if we do not try to frustrate the Commission proposals, we should be aware that they will do us very little good. What do we gain from pressing for an EC VRA on video recorders in order to protect Grundig

and Philips (our own Thorn/JVC product being unready and having a low UK content)? On motorcycles, cameras and all the principal finished manufactures imported from Japan except cars, we are defending a vacuum - as the DT itself recognises in the Official Note, 22C(iii) - which destroys the case for 22(a), which urges us to "support the Commission in toughening the Community's policy towards Japan".

In the case of Japanese cars, we already have our own VRA. And the real problem now is not Toyota, but the Fiesta and the Corsa.

ii. A VRA on machine tools and fork-lift trucks may do little harm. To improve the price and quality of our own products would be a more valuable effort.

iii. The Nissan project should continue to be welcomed.

Spain

Here the DT has got the question the right way round. We should seek improved access to her market, rather than seeking to exclude Spanish cars.

We also have every right to expect Ford and Vauxhall to help. They receive considerable Government grants (eg for Ford-Bridgend) in return for creating or maintaining employment. This implied bargain carries with it certain responsibilities. It's up to them to make sure that cars are produced as cheaply in Dagenham as in Belgium.

Newly-Industrialised Countries

We dissent strongly from both (i) and (ii). In fact, it is hard to think of more half-baked proposals.

The eight NICs listed in Annex A of the DT note, taken together, had a very modest surplus of £190m on trade with the UK last year, less than 5% of the total trade. In the first 8 months of this year, Britain had an even smaller deficit on visible trade with the eight NICs of £27m.

Their penetration represents less than 10% of the UK market in the case of almost all products. The major exceptions: 61% of umbrellas sold in Britain come from Taiwan; 60% of stainless steel tableware comes from Korea.

Is it worth sabotaging our commitment to free trade for that? Do we want to keep out Brazilian shoes in order to assist the Italian shoemakers?

Cars

Again, we dissent strongly from both (i) and (ii).

Imports from Australia, Romania, Poland, the USSR and Czechoslovakia are tiny (less than 3% of the British market). Is it worth risking retaliation and encouraging protectionist tendencies within the EC (which will hurt us most) for such a minuscule gain?

Conclusion

This is utterly wrong. It would be much better to point out vigorously what we have already achieved in the restraint of imports of textiles, footwear and cars. A major new and unmistakably protectionist initiative by the EC can only help to depress world trade further - and that means depressing Britain most.

II. IMPORT ADVISORY BOARD

Arthur Cockfield's separate paper proposing an Import Advisory Board is equally wrong-headed.

1. It would be another quango.
2. The Department of Trade ought to be its own Import Advisory Board. As we know from experience, setting up this sort of quango never succeeds in "deflecting uninformed attacks on government" - it merely provokes a new kind of criticism: "What are all your idle bureaucrats doing while my business is being ruined by the Japanese? Why don't you give your Board some teeth?"
3. It would give rise to expectations of import controls which it would be unable to fulfil. And to the outside world, it would advertise that Britain had been converted to protection. The consequences would be calamitous.
4. A far better alternative would be to give greater prominence to the Department's Anti-Dumping Branch.

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cc Mr. Vereker
Mr. Scholar ✓

MR. MOUNT

TRADE POLICY: MEMORANDUM BY SECRETARY OF STATE FOR TRADE E(82)77

The memorandum embraces the aim that "a generally open trading system was in the United Kingdom's interests." But I am afraid one seeks in vain to find ways in which the various measures which follow achieve that general objective. It goes on to argue that the objective is to achieve better opportunities for British exports. But with few exceptions, most of it is about additional import restrictions.

One would not mind so much if the policy in imposing import restrictions was solely to induce our trading partners to reduce their tariffs so that we could then relax ours. This tactic, although it is in my view highly questionable since there is no historical example of success, would nevertheless have some logical justification. But no such argument is put.

For the most part it is concerned with negotiating VRAs, in the case of Japan, Taiwan, Korea and Brazil. It is not clear how a VRA will induce the exporting countries to reduce their tariff barriers.

It is clear from the examples given that the main objective is not the reduction of tariff barriers in the exporting countries. The main purpose is to protect our boot and shoe industry, our motor car industry, etc. Protection of this kind is the antithesis of an open trading system.

Furthermore the measures directed against countries such as Korea and Brazil are particularly inappropriate. Brazil has one of the biggest debt problems in the world, rivalling that of Mexico. The only way she can pay her debts is to export and export again and again. If she is not allowed to export those goods in which she has a relative advantage, surely shoes are one, then she will have not merely an incentive, but also some moral right in repudiating her debts. In fact it is unlikely that there will be an outright default; what will happen is we will give them the money in order to pay off their debts, instead of allowing them to earn the money by exporting such mundane articles as boots and shoes. Giving them

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the money instead of the opportunity to earn it, seems to me to be quite wrong.

Of course, I realise there are great political difficulties in certain sections of industry, and that political questions must loom very large. But we ought to be honest about this.

13 December 1982



ALAN WALTERS

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PRIME MINISTER

E Committee

Item 1: Trade Policy

(E(82)77 and 78)

ATTENDANCE

1. In addition to E Committee members, the Lord Chancellor and the Attorney-General have been invited.

BACKGROUND

2. E(82)22nd Meeting on 28 October agreed that a genuinely open trading system was in the United Kingdom's interest, but that there were certain practical problems, particularly with Japan and Spain. It agreed that officials should examine options for action to secure better opportunities for British exports in the face of protectionist trade policies. Papers by officials on the cases of these two countries and the related issues of newly industrialising countries (NICs) and of car imports have been circulated as E(82)78.

3. In E(82)77 the Secretary of State for Trade notes that while the GATT Ministerial Meeting agreed to studies which will be helpful in the longer term there is no immediate prospect of GATT action to deal with discriminatory trade practices. To avoid upsetting the fragile basis on which the open trading system rests, the best hope lies in applying determined and consistent pressure by EC countries acting together, preferably in concert with the United States. The Community attitude has firmed up but if this approach did not achieve significant results, the UK would need to consider what might be achieved on our own. Lord Cockfield recommends that he should be authorised to pursue a range of proposals and report back to colleagues if they do not make reasonable progress by the spring.

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4. His proposals are -

- a. Japan: to support the Commission in pursuing the Community's complaint under Article XXIII(2) of the GATT and to try and bring the United States in, to seek an early conclusion to our bilateral negotiations for voluntary restraint arrangements (VRAs) on machine tools and fork lift trucks while supporting Community-wide VRAs in sensitive sectors, and to keep pressing for the Nissan investment in the UK.
- b. Spain: to pursue our Community initiative for reducing the tariff imbalance on industrial goods and to secure better implementation of the EC/Spain Trade Agreement of 1970, and to see what Ford and Vauxhall can do to help to reduce car imports.
- c. NICs: to urge a tougher approach on the Community, with a view to phasing out GSP benefits if NICs do not reduce tariff barriers, and to seek VRAs with Taiwan, Korea and Brazil in sensitive areas not yet covered.
- d. Cars from 3rd Countries: to impose prior surveillance licensing on Australian and Eastern Bloc imports, and to review our type approval requirements.

5. E(82)77 was written before the Foreign Affairs Council (FAC) on 13 December which took a number of helpful decisions in these areas. In particular

- i. On Japan, the Council agreed that the Community should now take action under Article XXIII(2) of the GATT to get its complaints considered by a Working Party of the Contracting Parties; should pursue vigorously its specific requests for further opening of the Japanese market; should reinforce its pressure for effective restraint on sensitive Japanese exports to the Community (which could include specific voluntary restraint arrangements) and report back in January 1983; and should extend its surveillance measures

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in the New Year to motor-cycles, video tape recorders and light commercial vehicles.

- ii. On Spain, the Commission will approach Spain for improvements in Spanish implementation of the 1970 EC/Spain Agreement. On the tariff imbalance, the Commission will hold talks with the UK car industry, and report back to the January Council. The UK's pressure has also clearly worried the Spaniards, since the Spanish Foreign Minister proposed to the Minister for Trade bilateral UK/Spanish contacts on the trade issue before Christmas.
- iii. On the Multi-Fibre Arrangement (MFA), the Commission reported the successful conclusion of the bilateral negotiations with textile importers and the Council agreed that the Community should remain within the MFA. After very tough negotiations this secures the position of the UK textile industry for the next four years. It is doubtful whether member states acting alone could have secured a better result.

On both Japan and Spain, your own letter to M Thorn of 10 December emphasised to the Commission the importance we attach to early action.

MAIN ISSUES

6. The main issues for discussion are
- 1 Whether to adopt the Secretary of State's proposals;
 - 2 Whether any further action needs to be taken or investigated;
 - 3 How the Committee's decisions should be presented publicly.

PROPOSALS

7. On Japan, a substantial move on the first proposal has been made by the FAC's decision to move to GATT Article XXIII(2), though it would clearly be useful if the United States would associate itself with the

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action. The fact that the Commission is to report in January on its further talks with Japan fits in with the two month deadline in your letter to Mr Thorn for the Commission to find solutions to the problems of Japanese import penetration. While this and the Commission's new tougher attitude and willingness to contemplate Community-wide VRAs is encouraging, the Committee may agree with the Trade Secretary that we should quickly conclude the bilateral VRAs on machine tools and fork lift trucks and maintain our pressure for the Nissan project. In this connection experience has shewn that our willingness to contemplate import restraints can be a major factor in Japanese investment decisions. The Committee may therefore also agree that we should keep in mind as a potential source of leverage the possibility of selective import restrictions under the Anglo-Japanese Trade Treaty or Community Regulation 288/82, though the need to obtain Community approval and Japan's right under GATT rules to retaliate may mean that this is more useful as a deterrent than a practical measure.

8. On Spain, the Commission's agreement to pursue the need to improve the implementation of the 1970 Agreement is helpful, but they are clearly less willing to act decisively on the tariff imbalance. Progress on both is dependent on Community support, but there is a clear need to keep up the pressure on the Commission if we are to get improved access to the Spanish market. The Secretary of State will be able to report on his talks with Ford and Vauxhall on 13/14 December about what they can do to help restrain car imports. It may well be necessary here to keep up commercial pressure in Madrid. A new and positive element is the apparent willingness of the new Spanish Government to have bilateral talks. The Committee will no doubt agree that these should be pursued at the earliest possible opportunity without cutting across the Commission's contacts.

9. On the NICs, any action to phase out GSP benefits is likely to be a long task and the best chance will probably come if the GATT study of North/South trade leads to negotiations. We can urge the study along, but can achieve little with the NICs on our own - and given their propensity to retaliate, the attempt would in any case be unwise. Direct action

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against imports from NICs which cause problems is therefore probably the best immediate prospect. Horizontal action by product sector rather than individual NIC would have the attraction of offering greater benefit to UK manufacturers of competing products; but it would involve action also against the NICs which maintain open markets - notably Singapore and Hong Kong - and countries like India which have few competitive industrial exports. The action proposed by the Trade Secretary against three of the more developed and protectionist NICs, Taiwan, South Korea and Brazil, is therefore probably more feasible; even so there is the risk of retaliation against our exports of capital goods and against UK firms chasing major projects business. This will need to be weighed in each case against the potential benefits for UK producers.

10. On cars from Australia, Romania and South Korea, comprehensive action to ban imports would require Community agreement and in its absence our position vis-a-vis Japan would have worsened, while the scale of these imports is too small to justify selective action. The introduction of prior surveillance licensing, however, on imports from Australia and the Eastern bloc could have a useful restraining influence psychologically without provoking retaliation. As regards type approval requirements, it is not clear what the Secretary of State for Trade has in mind, whether the ponderous application of existing procedures or cuts in staff, but the Attorney-General has advised previously that delaying the issue of certificates would be unlawful and could expose HMG to claims for damages from importers and other interests involved. Moreover in taking such action Ministers would face the dilemma of having to play down its significance in order to avoid comebacks from the Commission and third countries while having to present it to public opinion as a worthwhile measure against imports. The Committee may therefore wish to take up the Secretary of State for Trade's suggestion that the scope for action in this area needs to be considered further.

Further Action or Investigation

11. Although useful progress has already been made through the Community on Japan and Spain, the measures before the Committee will inevitably take time to produce decisive results. Members of the Committee may

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therefore wish to explore the scope for unilateral action with more immediate effects. In practice, this is virtually limited to action under Community Regulation 288/82, under which without Community support measures can only last 1-3 months. There are moreover a number of difficulties which would need to be taken into account:

- a. The risk of Community or domestic legal action - for example, the eye-catching measures taken by the French are likely to have to be rescinded or toned down to accord with GATT and Community rules, and many rely on administrative procedures which it would be difficult to implement in the UK without fear of legal action.
- b. The ineffectiveness of such measures in opening up export markets.
- c. Action against "unfair" imports could well lead to retaliation in sectors where export markets are already open and British industry is competitive. Such a protectionist exchange could well upset the delicate balance of the open trading system.
- d. The effects on UK industry's competitiveness in the longer run of protective measures to keep out low-cost imports.

Public presentation

12. Given the continued pressure from industry for government measures against unfair trading practices, there would be advantage in presenting as many as possible of the measures in the Trade Secretary's paper as a new programme of action. In the immediate future there would be advantage in forthcoming public statements in drawing particular attention to the Community action on textiles, Japan and Spain. The possible bilateral talks with Spain, measures by car manufacturers, the conclusion of the pending VRAs with Japan, and the imposition of prior surveillance licensing for car imports from Australia and the Eastern bloc will afford further useful opportunities for positive presentation of the Government's measures in this area.

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HANDLING

13. After the Secretary of State for Trade has introduced his memorandum, you will wish to invite comments from the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Industry Secretary. You may then wish to invite Mr Sparrow to follow up his comments at E(82)22nd Meeting on the economic case for action against imports. The Lord Chancellor and the Attorney-General may wish to comment on legal aspects of the proposals on type approval.

CONCLUSIONS

14. You will wish the Committee to reach conclusions on all the various suggestions in Lord Cockfield's paper which are, in summary, that the United Kingdom should:

Japan

- (i) Encourage the United States to join in the Community's action under Article XXIII(2) of the GATT.
- (ii) Encourage industry to conclude VRAs rapidly for machine tools and fork lift trucks.
- (iii) Support the latest Commission ideas on Community-wide VRAs.
- (iv) Maintain pressure for the Nissan project.

Spain

- (v) Press the new Spanish government (both bilaterally and through the Commission) to reduce the present tariff disparity unilaterally and to enforce the 1970 Agreement properly.
- (vi) Pursue talks with Ford and Vauxhall.

NICs

- (vii) Urge the Commission to warn the NICs that GSP benefits will be phased out unless they take decisive action.
- (viii) Seek VRAs for sensitive imports from Taiwan, Korea and Brazil.



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Cars

- (ix) Impose prior surveillance licensing on imports of cars from Australia, Romania, Poland, the USSR and Czechoslovakia.

- (x) Examine our type approval requirements with a view to ensuring that they are no faster nor simpler than those of other countries.

The Secretary of State for Trade should be invited to take action and to report back to the Committee as he suggests. The Department of Transport should take the lead on the examination of the type approval system.

CONQUEROR

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Item 2: Proposed Import Advisory Board
(E(82)79)

BACKGROUND

1. Among the options which E(82)22nd Meeting on 28 October asked officials to examine was the possibility of establishing an Import Advisory Board which would consider the damage caused by imports in individual cases and the counterbalancing disbenefits of any restraints on trade and advise the Secretary of State for Trade accordingly.

2. The Secretary of State for Trade's memorandum notes that an Import Advisory Board would be valuable in assessing proposals for greater protection and exposing the issues for decision. He points out that it could require legislation, and that its precise status would need further thought. The main policy arguments for and against a Board are set out in paragraphs 5 and 6 of the officials' paper annexed. On the one hand, the Board would offer a useful method of ensuring that the case for and against protective measures was fully and publicly examined; would help to deflect purely political pressures for protectionist action and improve the United Kingdom's chances of getting Community blessing for such action when it was found to be justified. On the other hand, the detailed examination process might be unwelcome to industry and increase the time required before action could be taken; there might also be pressure for it to consider protective measures which were not the responsibility of Government. The paper by officials also suggests that the annual cost of the Board might be of the order of £ $\frac{1}{2}$ million.

MAIN ISSUES

3. The main issues for decision are whether, in principle, such a body should be established and, if so, what further work needs to be done.

4. In considering the first, much will depend upon what an Import Advisory Board would be designed to achieve. Its work could, on the one hand, be aimed at improving the quality of decision making by analysing the case for import restraints in particular sectors and providing

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objective advice to Ministers. This might, for example, in some cases find that the lack of competitiveness of British industry was as much to blame for import penetration as the "unfair" trading practices of the exporting country. In this role, the Board would underline the Government's commitment to fair trade. On the other hand, the Board could be run as a protectionist body providing advice on the threat to British industry caused by other countries' trading practices and recommending action. This could be helpful in dealing with these matters in the Community and GATT, provided that the recommendations did not outrun the instruments available for action. In either role, it would be important for the Board to be recognised as independent, authoritative and thorough if its reports were not to lead to further political pressure from consumer groups and industrial users opposed to import restraints or from firms affected by imports and disappointed at the absence or limited scale of restraints.

5. The Board's status and value would be substantially influenced by its form, terms of reference, and resources. It could be set up administratively and financed from the Department of Trade's vote, given statutory backing or established as a limited company. The first would probably be inconsistent with the need for the Board to be seen to be independent; the relative advantages of the alternatives would require further examination by officials in the light of the Government's policy on quangos. The terms of reference could restrict the Board to cases referred to it by the Secretary of State or allow direct access by affected interests; the second however could lead to unnecessary work and expense as well as increased political pressure. The figure of £500-600,000 quoted as the possible cost of the Board is purely illustrative. It might be possible to keep costs to a minimum by following the example of the French Consultative Commission on International Trade and contract out studies referred to it. If the Committee decides that the Board should be set up, officials would need to do more detailed work here also.

HANDLING

6. After the Secretary of State for Trade has introduced his memorandum, you may wish to focus discussion on the arguments for and against the



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Board and the objectives which it might be given. The Chancellor of the Exchequer, the Industry Secretary and the Foreign and Commonwealth Secretary will probably all comment.

CONCLUSIONS

7. You will wish the Committee to reach conclusions on the following:
- i. whether, in principle, an Import Advisory Board should be established;
 - ii. whether, before any final decision is taken, officials should be asked to give further consideration to its status, terms of reference, and cost.

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GUY STAPLETON

15 December 1982