

FCS/85/54SECRETARY OF STATE FOR TRADE AND INDUSTRYCCND  
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11/3.A New GATT Round

1. Your letter of 4 March, reviewing our current position on preparations for a new GATT round, and setting out the line Paul Channon and I should take at the 18-19 March Foreign Affairs Council, was welcome. We need a clear but realistic idea of what we want to achieve as we embark on the series of meetings leading up to the Bonn Summit.

2. I agree very much with your approach. It is a logical development of the position on which we agreed at ES in April last year, and the references to a new GATT round in the 1984 OECD Ministerial and London Summit declarations. It is incidentally also consistent with the approach endorsed as long ago as the Williamsburg Summit in 1983. The overriding interest for the United Kingdom is to preserve the system of comparatively free trade represented by the GATT. Perhaps the main threat to that system is the mounting protectionist pressure by the United States to which you refer.

3. The US Administration argue that the prospect of a new round is necessary if they are to keep this pressure under control. This is the main reason why we should, as the Prime Minister indicated in Washington, support them in pressing towards a new round. Otherwise the Americans may well become disillusioned with the GATT, opt out of the multilateral trading system, and use their economic muscle to drive separate bargains with their trading partners. We would all be the losers.





4. But it is clear that the Americans have not yet thought through their detailed objectives or their tactics. We must encourage them to work out both what they want to achieve in a new round and how to get other countries to participate. Simply trying to bully the LDCs and NICs into it, as the Americans tried to do at the Contracting Parties meeting in November, will not be enough. The Americans need instead to apply the right pressures in the right places and in the right way. There are signs in Geneva that they are beginning to appreciate this.

5. We and the Americans want to achieve practical objectives, such as opening up the Japanese market and imposing GATT disciplines on the newly industrialising countries. I think that we must expect in return to come under pressure to make concessions in sensitive areas, such as steel and textiles. Your forthcoming papers on the MFA and VRAs will be the main contribution to developing our policy here, and will doubtless bring out the extent to which liberalisation is to our economic advantage, whatever counter concessions the NICs and others make.

6. Our immediate requirement, in view of the forthcoming meeting of the Foreign Affairs Council, is to swing the Community behind the idea of a new round so that it can cease to play the equivocal role now forced on its representatives in Geneva and elsewhere. The French and the Italians are instinctive protectionists, which we and the Germans are not. And a number of Member States, especially France, are very reluctant to expose the CAP to demands that it be brought under international discipline. (As increasingly successful grain exporters ourselves, our own interests in this are not clear cut). The Commission are playing a generally constructive role, which is encouraging.



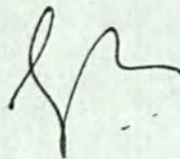


Delors cannot, however, be relied upon to resist the link which the French have recently reiterated between progress towards a new round and a world monetary conference. Even De Clercq has emphasised the relationship between trade and monetary problems - which is undeniable, but not intrinsic to a new round. Kohl may be hoping that the French would not want to spoil his Bonn Summit by pressing their case. We must hope, without too much confidence, that he has better luck than we had in London. In any case this should not deter us from aiming for a positive statement from the March Council, to enable the Community to support the US at the OECD Ministerial and Bonn Summit.

7. I propose, in order to help to achieve this, to try to put the arguments to Dumas, Andreotti and if possible Delors, before the Council discussion. Paul Channon might usefully do the same with his French and Italian counterparts. The next Sherpas' meeting will also provide an opportunity to persuade the sceptical of the need to move, and the Americans of the importance of thinking through both the tactics and the substance if we are together to succeed in launching a new round soon.

8. I am copying this to the Prime Minister, to other OD colleagues and Sir Robert Armstrong.

Foreign and Commonwealth Office  
11 March, 1985



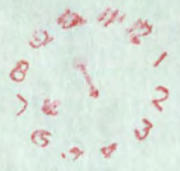
GEOFFREY HOWE



Trade Pt 4

MAR 1985

Non-Tariff Barriers





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DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET 5422  
TELEPHONE DIRECT LINE 01-215  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

4 March 1985

The Rt Hon Geoffrey Howe QC MP  
Secretary of State for Foreign  
and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London SW1

Prime Minister  
This is in line  
with your views  
and will, I hope,  
lead us to a  
more active effort in  
support of a new GATT  
round. EDD 5/3

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A NEW GATT ROUND

One of the main trade policy issues in 1985 will be the extent to which we can make progress towards the launch of a new GATT Round. The European Community will be considering its position on this at the Foreign Affairs Council on 18-19 March. The conclusions reached there will set the tone of the contribution to be made by Community Member States at the OECD Ministerial on 11-12 April and at the Bonn Economic Summit on 2-4 May. This is a convenient moment for me to review our position and to set out the line which I think the United Kingdom through Paul Channon, should take at the Foreign Affairs Council.

2 We reached agreement at ES on 3 April last year on the trade policy objectives which the United Kingdom should pursue through a new Round. These are essentially liberalisation of trade in services and agricultural products, "graduation" of the newly industrialised countries, further opening of the Japanese market and the removal of remaining tariff peaks.

3 There is no guarantee that all, or any, of these objectives can be secured. The developing countries will resist any erosion of the privileged status they currently enjoy in GATT: and they are currently insisting on unacceptable pre-conditions for their participation in a Round. The developed world, including ourselves, will have to be ready to contemplate concessions as part of a balanced outcome. We must expect to come under pressure on textiles and on our voluntary restraint arrangements for controlling certain imports. I shall be circulating papers to colleagues shortly on the future of the Multi Fibre Arrangement and on the conclusions of my review of our VRA's. I think it is generally in the UK interest to move towards liberalisation in the textiles regime - and to aim for more realistic safeguard provisions within GATT which could come to replace the present

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"grey area" measures. But we will want to extract the maximum negotiating advantage in a new GATT Round from any moves we decide to make.

4 As we recognised in ES, there could be substantial risks in a new Round of multilateral trade negotiations. We may ultimately be asked to give more than we gain. This particular danger may be all the greater now that our national position looks likely to be subsumed into the common position of a Community of Twelve, with a more Mediterranean centre of gravity. Another risk is that the whole enterprise could simply fail - leaving the GATT enfeebled.

5 But since our earlier discussion a further factor has come into prominence. This is the growing disenchantment of the United States with the multilateral trade system as it now operates through GATT. Faced with growing protectionist sentiment, fuelled by the current strength of the dollar and a massive trade deficit, the US Administration needs to be able to assure its business community that the GATT will shortly make a serious effort to deal with perceived distortions in the current trade rules. This requires early agreement to a Round. Otherwise there is, in my view, a real danger that the US may be tempted to walk away from the multilateral system and to find some alternative basis for the conduct of trade policy.

6 A US retreat into multilateral or bilateral arrangements would, over time, bring the whole GATT edifice down. This cannot be in the United Kingdom's interest. It has traditionally been, and remains, one of the main objectives of our trade policy to maintain the authority of the GATT. We must aim to keep the Americans on board the multilateral process through endorsement of a new GATT Round designed to underpin and reinforce that authority. The Prime Minister gave positive support to proposals for a new Round during her recent visit to Washington. I am convinced that the risks we could face in the course of multilateral trade negotiations are outweighed by those with which we would be confronted if the GATT lacked the self-confidence to embark on a new Round.

7 The immediate need is to bring the European Community to a position of whole-hearted support for a new Round. Opinions within the Community remain divided. Germany, Denmark and the Netherlands take broadly the same position as we do. But France and Italy are more reserved. They probably do not have any specific goals to pursue through a Round: they are suspicious as regards services and opposed to moves on agriculture which might threaten the CAP. It is important to overcome the doubts of these countries. We should seek a declaration by the OECD Ministerial that the developed countries as a whole are convinced that a new Round of multilateral trade negotiations in GATT would now be timely - and that the appropriate preparatory process should be initiated with a view to an early launch. We want the European Community to put its weight

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behind the US in calling for such conclusions. The message could then be reinforced by the Bonn Economic Summit.

8 A great deal will depend on the attitude of the new Commissioners. Commissioner de Clercq looks to be pushing in the right direction. But there is a question mark over the thinking of President Delors. He seems attracted by the traditional French thesis that monetary and financial stability should take primacy over, or at least have equal weight with, further moves on the trade front. The French have at various stages in the past hinted that their support for a new GATT Round would be dependent upon prior agreement that there should be a world monetary conference to deal, inter alia, with the problem of exchange rate instability. This purported link between trade and monetary issues could be awkward to handle (especially since there is unease among our own businessmen about the current volatility of exchange rates). I should like to enlist the help of the Treasury in marshalling the rebuttal arguments to this French approach - which could, represent a serious delaying factor.

9 I think we must aim for some tangible advance on the rather cautious references to a new GATT Round in the conclusions of last year's OECD Ministerial and the London Economic Summit. The stress at that time was on building a consensus as between developed and developing countries on the principle of a new Round. We now need to impart a greater sense of urgency. The sensitivities of the developing countries need to be respected. But we should leave these countries in no doubt that a new Round may well be crucial to the future of the open trading system: they themselves would be major losers if that system started to fall apart.

10 I am copying this letter to the Prime Minister, to other OD colleagues and to Sir Robert Armstrong.

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Trade: Non-Tariff Barriers: Pt 4

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# **REPORT**

**FROM THE FEDERAL REPUBLIC OF GERMANY**

Feb. 27, 1985.

## **WORLD TRADE TALKS IN LUDWIGSBURG**

Possible ways to strengthen Gatt (General Agreement on Tariffs and Trade) will be among topics to be dealt with by ministers from 14 countries meeting in Ludwigsburg near Stuttgart from March 1 to 3 to discuss world trade, economic recovery and national indebtedness.

Host and chairman over the three days from Friday to Sunday will be Dr. Martin Bangemann, Federal Minister of Economics. Britain will be represented by Mr. Paul Channon, Minister of Trade at the Department of Trade and Industry, and there will be representatives from the European Commission and Gatt. A number of international experts on trade and economic affairs will also attend. The conference has been convened by the London-based Trade Policy Research Centre.

The talks will begin on Friday evening and continue until Sunday afternoon. Some of the discussions will also centre on possible lines of approach for the world economic summit to be held in Bonn in May. Other topics will be cutting tariff barriers, easing the problems caused by international debt and closing the trade gap between the developing and developed countries.

Dr. Bangemann wrote in a letter to delegates: "The informal weekend meeting of a representative gathering of government ministers from North and South responsible for international economic affairs will provide the opportunity for us to analyse the state of the global economy. To sustain the world upswing we should comprehensively strengthen Gatt."

Countries taking part are Britain, Canada, France, the Federal Republic of Germany, India, Japan, Kenya, Korea, the Netherlands, Philippines, Singapore, Sweden, Turkey, United States.

