

WJK/761/13

FDW G 236/12

DD 130230Z DELHI

OO WARSAW

OO JEDDA

OO RIYADH

GRS 344

CONFIDENTIAL

FM FCO 121830Z APR 85

TO IMMEDIATE NEW DELHI

TELEGRAM NUMBER 417 OF 12 APRIL

AND TO IMMEDIATE WARSAW (FOR SECRETARY OF STATE'S PARTY)

INFO IMMEDIATE JEDDA, RIYADH

FOLLOWING FOR PRIVATE SECRETARY TO PRIME MINISTER

MIPT: PETROCHEMICALS

1. WE WOULD NOT WISH THE PRIME MINISTER TO RAISE THIS ISSUE, BUT IF THE KING RAISES ACCESS TO EUROPEAN MARKETS FOR GULF PETROCHEMICALS, WE SUGGEST THAT THE PRIME MINISTER SHOULD TAKE THE FOLLOWING LINE:

- AWARE OF CONCERNS OF GULF COUNTRIES: MATTER FOR EUROPEAN COMMUNITY AS A WHOLE.

- ACCEPT RESTRUCTURING OF EUROPEAN INDUSTRY ONLY SOLUTION: EC DUSTRY HAS ALREADY MADE MAJOR ADJUSTMENTS AND RECOGNISES NEED FOR MORE.

- BUT CANNOT BE ACHIEVED OVERNIGHT: ORDERLY MARKETING BY GULF STATES WILL HELP THIS PROCESS.

- GCC/EC TALKS SHOULD CONTINUE.

- EC IMPOSES NO QUANTITATIVE RESTRICTIONS:

SAUDIS: FREE TO SELL AS MUCH AS THEY CAN ONCE TARIFF IS PAID AND NO INDICATION THEY HAVE ANY DIFFICULTY IN DOING SO.

- TARIFFS NOT NEW AND NOT SPECIALLY IMPOTED TO KEEP OUT GULF PRODUCTION: THEY ARE NORMAL, MFN TARIFFS WHICH MEET ALL GATT OBLIGATIONS.

- TARIFFS NOT DISCRIMINATORY: APPLIED TO ALL THOSE WISHING TO EXPORT PETROCHEMICALS TO EC.

- US AND JAPAN IMPOSE SIMILAR TARIFFS: US TARIFF ON METHANOL 35 PCT HIGHER THAN COMMUNITY TARIFF (AND US GIVES NO DUTY FREE ACCESS WHATSOEVER): JAPANESE TARIFF ON POLYETHYLENE 40 PCT HIGHER (BUT MUCH LOWER ON METHANOL).

BACKGROUND

- SAUDIS WISH TO RECOVER COSTS OF NEW PETROCHEMICAL PLANTS AND TO AUGMENT FALLING OIL REVENUES.

- TARIFFS REDUCE RETURNS FROM SAUDI EXPORTS.

- UNDER GSP, SOME DUTY FREE ACCESS TO EC FOR GULF PETROCHEMICALS. BUT AMOUNT VERY SMALL: IN 1984 AND 1985 NORMAL TARIFF IMPOSED ON SAUDI METHANOL AFTER 20,000 AND 32,000 TONNES HAD ENTERED DUTY FREE.

- SAUDIS ACCUSE EC OF PROTECTIONISM AND DISCRIMINATION: HINT AT RETALIATION.

- EC TARIFFS ON PETROCHEMICALS APPROXIMATELY 13-15 PCT

- SAUDI ARABIA RECENTLY INCREASED TARIFFS ON IMPORTS SUBJECT TO DUTY FROM 4 PCT TO 7 PCT: IMPOSES HIGHER TARIFFS TO PROTECT SOME NEW INDUSTRY, SUCH AS 20 PCT ON ELECTRIC CABLE:

HOWE