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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

TRADE POLICY

Memorandum by the Secretary of State for Trade

1 It has been the view of British Governments at least since the War that the promotion of international trade through the abolition of quantitative restrictions and the reductions of tariffs, under the auspices of the GATT, is in the interest of the United Kingdom. I have no doubt that this policy has been correct. But we have inherited a highly unequal situation. In many markets outside the Community and EFTA our exports face both high tariffs and quantitative restrictions. In contrast, except for agricultural products and public purchases, imports into the EC and hence into the United Kingdom face a low tariff and in most cases are free of quantitative restrictions.

2 The annex includes details of the barriers to our exports in a number of third country markets. These markets fall into two main categories: developed countries such as Australia, Canada, South Africa, the United States of America, and Spain; and the so-called newly industrialised countries (NICs) such as Korea and Brazil. The latter as "developing countries" are for all practical purposes free of GATT restraints on the control of imports under generous provisions written into the GATT before the explosion in oil prices. Japan is in a special category. Outside agriculture, it has low tariffs and few quantitative restrictions but minimises import of manufactured goods by a combination of extreme competitiveness, high quality and a socio-economic structure geared to the interests of domestic industry. While world trade was growing and unemployment low, we acquiesced in - and even encouraged - this intrinsically unfair situation. But the position is now very different.

3 Our apparent inaction over the lack of reciprocity is incomprehensible to British firms facing intense competition in the depressed home market without corresponding ease of access to export markets. We have tried over the years to get a fairer balance, eg our tough stance in the Multi-Fibre Arrangement (MFA), and the modest steps taken by the Japanese under pressure to restrict exports and liberalise imports. But as the current EC move against Japan under Article 23 of the GATT shows, the Japanese only move when kicked hard, and then very slowly.

4 Resentment at this lack of reciprocity is exacerbated by the belief - generalised from a few examples - that some Community countries (notably France and Italy) restrain imports from third countries and indeed from other EC countries by administrative

and legal devices of one kind or another. The possibility of our emulating these practices was examined in E(82)10 and discussed by E Committee on 25 February (E(82)6th Meeting). The results were meagre.

5 It would be wrong for us to adopt a policy of restricting imports for narrow protectionist reasons. The main drive of our policy should be to get other countries to open up their home markets for the benefit of British exporters. But we must face up to the fact that we shall not make progress unless we are in a position to act against imports from countries that deny comparable access to our exports. We need to strengthen our negotiating muscle.

6 Action would not be accepted without protest by the countries concerned and in considering the options given below we must bear in mind the possibility of retaliation being taken against our existing exports - particularly in those cases where, despite the inequality of access, we nevertheless currently enjoy a trade surplus, eg Australia. Our aim throughout would be - as I have already indicated - to get the other country to open up its market to us: not that we should in fact restrict their access to our market. But it might not end up that way.

Action through the Community

7 We could, and I suggest should , mount a fresh initiative with our Community partners to persuade them that their fears of retaliation and political reaction are exaggerated and that we should now follow the mood of the American Congress by making a determined effort to gain greater trade reciprocity. We could first approach individual Community Trade Ministers, and then circulate a memorandum for discussion at the Foreign Affairs Council. This would draw attention to the lack of reciprocity in trading policies and the burden this puts on Community industry, press for a tougher approach to the NICs (including the tariff preferences they enjoy), and give our support to proposals which the French have circulated for closer surveillance of sensitive kinds of imports and for a trade complaints mechanism in the Community modelled on the United States International Trade Commission. In parallel with this, we should be prepared to take the emergency unilateral action allowed under Community rules against import surges (which we built into the Community procedures last year) even though without Community support such action could only be sustained for a period of one to three months.

8 We should also press for a much tougher Community line over Spain's privileges under the very one-sided EC-Spanish Trade Agreement of 1970. We inherited the disadvantages of this Agreement when we joined the Community in 1973. It is under this agreement that Spain is able to impose high tariffs on Community exports (for example, 37% on cars) while their exports to the United Kingdom enjoy a preferential low tariff (only 4% on cars). Ideally, this agreement should be terminated, but there is no prospect that we could get Community agreement on this. Our recourse might be to place difficulties in the way of imports of the new General Motors Corsa car by imaginative use of type approval. We might also use the safeguard provisions in the

Treaty, for example, by seeking a quota on imports of Spanish-made cars. Unilateral action on our part would be open to Commission disapproval within five days. Unilateral action, even subsequently vetoed, would however demonstrate our concern, and might stimulate the Community into taking the problem more seriously. The basic problem here rests with decisions taken by "British" manufacturers who are foreign owned and whose policy is effectively directed from abroad.

9 There is no prospect of persuading the Australians to liberalise their trade policies unless the Community is prepared to change its agricultural policies which hit Australia's exports. Mitsubishi are currently planning to manufacture cars in Australia for export to the United Kingdom. As "Australian" cars they would not be subject to the export restraint arrangements with the Japanese manufacturers. We should make it clear now to the Australians that we shall not hesitate to take emergency action by imposing a quota if such imports reached significant proportions. It is possible, however, that at the end of the day we might have to climb down in the absence of Community support.

10 As regards Japan, we have a right in certain circumstances when serious injury arises or can be expected to arise, to take selective action under the terms of the Anglo-Japanese Trade Treaty 1962. There are several voluntary restraint arrangements (VRAs) with Japan (eg cars), and others are under consideration. It is open to us to adopt a tougher line in future negotiations so long as we are prepared, if necessary, to resort to the provisions of the Treaty. Under the terms of the Treaty, Japan would be entitled to take compensation by imposing controls on our exports, eg of whisky or wool textiles. But with the very substantial balance of payments surplus Japan enjoys with this country, she might hesitate before escalating matters too far.

11 The United States of America (which takes 10% of our exports) is a special case. Despite its supposed support for liberal trading policies, it is highly protective in some important sectors (eg, agriculture, steel and publishing) and its exporters enjoy the benefit of artificially low energy costs and discriminatory tax privileges. Its economic strength, however, makes it a difficult target, as we are finding over the steel and Pipeline disputes. And the Americans have genuine grievances as regards some EC policies, notably agriculture.

Action Independent of the Community - A Trade Reciprocity Act

12 External trade policy is a matter of Community competence under the Treaty of Rome. But so long as we rely on Community agreed action, the results will be few and slow. The main obstacle to effective unilateral action is S. 2(1) of the European Communities Act which makes Community legislation directly applicable in United Kingdom Courts. A Trade Reciprocity Act could remove this obstacle in appropriate cases and thereby enable us to take action against the unfair trading practices of third countries. Such legislation would be similar to Section 301 of the United States Trade Act 1974: or it could take the form of an extension of the Protection of Trading Interests Act. There is no doubt that such legislation would be challenged by the European Commission and our Community partners

as incompatible with our obligations under the Treaty of Rome and our membership of the Community. We would need to face up to thispoint in advance.

Imports Advisory Board

13 Whether or not we go so far as to seek a Trade Reciprocity Act, it might be helpful to establish an independent body to which the Government could refer proposals for import restraints for examination. Such a body would complement the French proposal referred to in paragraph 7 for a Community complaints mechanism. It might also be asked to prepare and publish studies on the unfair trading policies of other countries. It would be analogous to (but much smaller than) the American International Trade Commission and the Australian Industries Assistance Commission (the French have recently formed a Commission of External Trade for the same purpose). It could assess the advantages and disadvantages of greater protection and where we had a good case could be used by us to bring pressure to bear on the European Commission to take action. Such independent examinations would help contain unjustified demands for protection which a more active approach to unfair trading practices by our competitors might unleash.

Conclusion

14 A meeting of Trade Ministers of GATT countries is taking place on 24/26 November. It was arranged because of widespread concern about the world trade situation, and in particular the drift towards protectionism. As a matter of tactics it would be undesirable to take dramatic action before the meeting otherwise this might well result in failure for which we would be blamed. However, the meeting presents us with a good opportunity to draw attention to the injustices caused by the lack of reciprocity and the damage ensuing to the multi-lateral trading system. We could trail this line beforehand in the Community and in speeches, including those in the debate on the Address. I have made this point very clearly in my own speech in the House of Lords in reply to a Debate on the prospects for the GATT meeting.

15 The GATT meeting is unlikely to address the problem seriously or give us satisfaction. In this event, we would be able to say that our views had been made known, and we could then decide on the options left to us, both through the Community and through unilateral action. In the meantime, the Committee might decide which options officials should examine in further depth so that we are ready to act without delay.

Department of Trade
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21 October 1982

ANNEX

SOME EXAMPLES OF BARRIERS TO TRADE IN EC AND CERTAIN THIRD COUNTRIES

COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT
		TARIFF	QUOTA	OTHER			
AUSTRALIA						+£583.2m	
	MOTOR CARS (87.02 A 1 b)	57.5%	Quota	20% sales tax	10.6%		N/A
	FOOTWEAR (64.01-64.04)	30-40%	Some items under quota	20% sales tax	6.2-20%		"
	BISCUITS (19.08)	20%		20% sales tax	13%		"
	WHISKY (22.09)	$16.66-$19.29 per litre of alcohol			1.60 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		"
	HAND TOOLS (82.01-82.05)	20-30%	Some items under quota	20% sales tax	4.6-8.6%		"
	TEXTILES						
	Men's wool suits (61.01 BVC1	50% + $5 per garment			16.5%		"
	Women's cotton dresses (61.02 B11e5)	50% + $10 per garment			16.5%		"
	Colour TVs (85.15A111b)	35%		32½% sales tax	14%		"

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COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT
		TARIFF	QUOTA	OTHER			
BRAZIL						-£264m	
	MOTOR CARS (87.02 A 1 b)	170-205%		Import licences	Duty free (GSP) - subject to ceiling		N/A
	FOOTWEAR (64.01-64.04)	100%	Import ban		Duty free (GSP) quota & ceilings		"
	BISCUITS (19.08)	185%	Import ban		13%		"
	WHISKY (22.09)	105%	Import ban		1.60 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		"
	HAND TOOLS (82.01-82.05)	75%-145%		Import licences	Duty free (GSP) - subject to ceilings		"
	Colour TVs (85.15A111b)	185%	Import ban		14%		"

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COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT
		TARIFF	QUOTA	OTHER			
CANADA						-£682.5m	
	MOTOR CARS (87.02 A 1 b)	9.2%			10.6%		N/A
	FOOTWEAR (64.01-64.04)	20-22.5%	Quota under GATT A.XIX		6.2-20%		"
	BISCUITS (19.08)	5%-7.5%			13%		"
	WHISKY (22.09)	38.8¢ per gal £8.514 per litre		Sales tax 12% + provincial taxes	1.60 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		"
	HAND TOOLS (82.01-82.05)	11.3%			4.6-8.6%		"
	TEXTILES						
	Men's wool suits (61.01 BVC1)	25%			16.5%		"
	Women's cotton dresses (61.02 B11e5)	22.5%			16.5%		"
	Colour TVs (85.15A111b)	9.2% from UK 12.8% from other countries			14%		"

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COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT
		TARIFF	QUOTA	OTHER			
INDIA						+£418·3m	
	MOTOR CARS (87.02 A 1 b)	100-150%		Import licences only issued in exceptional circumstances	Duty free (GSP) - subject to ceiling		N/A
	FOOTWEAR (64.01-64.04)	100%	Import ban		Duty free (GSP) quota & ceiling		"
	BISCUITS (19.08)	15% + 5% special excise duty	Import ban		13%		"
	WHISKY (22.09)	Rs 33.30 per litre	Import ban		1.60 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		"
	HAND TOOLS (82.01-82.05)	40%-60%		Import licences	Duty free (GSP) - subject to ceilings		"
	Colour TVs (85.15 A111b)	30% + 5% special excise duty		Import licences	14%		"

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COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT 1982 (estimated)
		TARIFF	QUOTA	OTHER			
JAPAN				15%-22.5% of duty & value-commodity tax		-£1995m	
	MOTOR CARS (87.02 A 1 b)	Duty free		Consignments of 10 vehicles or more subject to type-approval testing	10.6%		-£191.3m
	FOOTWEAR (64.01-64.04)	6.4-27%	Quota on all leather footwear	Import licences for all leather footwear	6.2-20%		+£0.19m
	BISCUITS (19.08)	31.9% to 36.3%		Subject to provisions of food sanitation law	13%		N/A
	WHISKY (22.09)	36% or 332 yen per litre which ever is less (with a minimum of 299 yen per litre)		Liquor tax of 1775.3 yen per litre. Subject to provisions of Food Sanitation Law, Screening of Chemical Substances Law & Alcohol Monopoly Law	1.60 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		+£68.3m
	HAND TOOLS (82.01-82.05)	4.5-7.2%			4.6-8.6%		N/A
	TEXTILES						
	Men's wool suits (61.01 BVC1)	14%			16.5%		"
	Women's cotton dresses (61.02 B11e5)	14%			16.5%		"
	Colour TVs (85.15a111b)	4%		15%-20% of duty paid value commodity tax	14%		"

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COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT 1982 (estimate)
		TARIFF	QUOTA	OTHER			
KOREA						-£166.8m	
	MOTOR CARS (87.02 A 1 b)	100-150% + 15-40% special excise tax	Effective ban - imports of all vehicles subject to approval of Korean Motor Industry Assn. (Not forthcoming)		Duty free(GSP)- subject to ceiling		N/A
	FOOTWEAR (64.01-64.04)	50%		Some items subject to import surveillance	Duty free(GSP) quota & ceilings		-£31.5m
	BISCUITS (19.08)	50%		Subject to import surveillance	13%		N/A
	WHISKY (22.09)	150% (100% if certified for tourist hotel use) +200% liquor tax	Subject to Ministerial approval		160 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		+£2.8m
	HAND TOOLS (82.01-82.05)	30%		Some items subject to approval of the National Casting & Forging Coop Assn of Korea	Duty free(GSP)- subject to ceilings		N/A
	COLOUR TVs (85.15 A1 1b)	50% + 28-40% special excise tax	Subject to Ministerial approval		14%		"

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COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT
		TARIFF	QUOTA	OTHER			
ROMANIA	MOTOR CARS (87.02 A 1 b)	Not published		Lack of hard currency	Duty free (GSP) - Subject to ceiling	+£82.7m	N/A
	FOOTWEAR (64.01-64.04)	"		"	6.2-20%		"
	BISCUITS (19.08)	"		"	13%		"
	WHISKY (22.09)	"		"	1.60 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		"
	HAND TOOLS (82.01-82.05	"		"	Duty free (GSP) - subject to ceiling		"
	Colour TVs (85.15 A111b)	"		"	14%		"

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COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT
		TARIFF	QUOTA	OTHER			
SOUTH AFRICA						+£304.35m	
	MOTOR CARS (87.02 A 1 b)	100% + 10% import surcharge		Import Licences or import permit	10.6%		N/A
	FOOTWEAR (64.01-64.04)	15-30%		Import Licences or import permit	6.2-20%		"
	BISCUITS (19.08)	25%		"	13%		"
	WHISKY (22.09)	31 764c per 100 litres of absolute alcohol or 15 420c per 100 litres		"	1.60 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		"
	HAND TOOLS (82.01-82.05)	3-23%		"	4 .6%-8.6%		"
	TEXTILES Men's wool suits (61.01 BVC1)	30%		"	16.5%		"
	Women's cotton dresses (61.02 B11e5)	35% or 200c per 100g less 65% + 10% import surcharge		"	16.5%		"
	Colour TVs (85.15A111b)	20% + 10% import surcharge		"	14%		"

COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT
		TARIFF	QUOTA	OTHER			
SPAIN						-£22.1m	
	MOTOR CARS (87.02 A.1.b)	36.7%	Value quota		4.3%		N/A
	FOOTWEAR (64.01-64.04)	9-33.1%			2.5-12%		"
	BISCUITS (19.08)	10%	Value quota		13%		"
	WHISKY (22.09)	40 ptas per litre with 13% reduction on the full rate of duty and then a further 25% EEC preference	Value quota		1.60 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		"
	HAND TOOLS (82.01-82.05)	16-28%			1.8-3.5%		"
	COLOUR TVs (85.15 A111b)	22.8%	Value quota		14%		"

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COUNTRY	PRODUCT	BARRIERS TO UK EXPORTS			CCT LEVEL (ie UK tariff)	OVERALL VISIBLE TRADE BALANCE 1982 (estimated)	TRADE BALANCE FOR PRODUCT (1981 - Taiwan figures)
		TARIFF	QUOTA	OTHER			
TAIWAN						-£182.2m	
	MOTOR CARS (87.02.A 1b)	65-70% + 25-35% sales tax	No vehicles over 3000 cc imported from any source other than US	Import licences	10.6%		+£0.52m
	FOOTWEAR (64.01-64.04)	45-60%		Import licences	6.2-20%		-£1.74m
	BISCUITS (19.08)	70%		Import licences	13%		-£0.001m
	WHISKY (22.09)	70% + 120% sales tax	Imports by state monopoly only		1.60 ECU per litre of alcohol in the spirits + 0.10 ECU per bulk litre		+£4.5m
	HAND TOOLS (82.01-82.05)	25%		Import licences	4.6-8.6%		-£0.005m
	COLOUR TVs (85.15 A 1N6)	45%		Import licences	14%		-£0.22m