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E(82) 22nd Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held
at 10 Downing Street on
THURSDAY 28 OCTOBER 1982 at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Francis Pym MP
Secretary of State for
Foreign and Commonwealth Affairs

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for
Education and Science

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Baroness Young
Lord Privy Seal

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Lord Cockfield
Secretary of State for Trade

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon John Biffen MP
Lord President of the Council

The Rt Hon Sir Michael Havers QC MP
Attorney General

Mr J Sparrow
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr D J S Hancock
Mr G Stapleton

SUBJECT

TRADE POLICY

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TRADE POLICY

The Committee considered a Memorandum by the Secretary of State for Trade (E(82) 71) proposing a study of actions to secure better opportunities for British exports in the face of protectionist trade policies; a Note by the Secretary of State for Foreign and Commonwealth Affairs (E(82) 73) putting forward certain considerations which should be taken into account in such a study; and a Note by the Central Policy Review Staff (E(82) 72) commenting on the approach which should be adopted. They also had before them proposals for the tariff transition arrangements on the accession of Spain to the European Community (EC) and for Community action under the 1970 EC/Spain Agreement, circulated under cover of a minute of 22 October from the Foreign and Commonwealth Secretary to the Prime Minister.

THE SECRETARY OF STATE FOR TRADE said that the open trading system was to the advantage of the United Kingdom but that he was concerned about the way in which distortions had developed in recent years which had tended to change conditions to the detriment of this country. These distortions were characterised by a lack of reciprocity under which high tariffs and quantitative restrictions often faced United Kingdom exports outside the Community and European Free Trade Association in contrast to the low tariffs and few quantitative restrictions on the bulk of imports into the EC. The most worrying case was Japan, with which this country had an increasingly adverse balance of payments. This was not only a matter of cars; imports of video recorders had increased over five times in value over the last five years. It was relevant that the French had recently erected barriers to video recorder imports. The Newly Industrialised Countries (NICs), both in the Pacific and South America, were also a matter for concern; our balance of payments with Brazil was particularly unfavourable. It was difficult to feel that the concessions originally extended to these countries in the General Agreement of Tariffs and Trade (GATT) were still justified. With Spain there was the problem of the very unequal Trade Agreement which the United Kingdom had inherited at accession to the Community; our previously favourable balance of payments had become substantially unfavourable in July and August of this year. The main difficulties arose with car imports, which were exacerbated

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by the cost structure of British industry and the multi-national control of many automobile firms. Australia had begun to export Japanese cars to this country; 3,000 were expected this year, with the total eventually rising to 8-10,000. While there would be no objection to this if reciprocity existed, there was a very marked disparity in the relative tariff levels. Quite different considerations arose within the Community where the problem was the failure of other member state to observe EC regulations. The Commission's own figures showed that the United Kingdom had almost the smallest number of recorded infringements. In his view, if the United Kingdom was to be able to achieve greater reciprocity, it would be necessary to take a more robust attitude in the GATT and the EC and to study the possibility of unilateral action. He had circulated to colleagues a statement of the line he proposed to take at the forthcoming meeting of GATT Trade Ministers; in particular he proposed to support the United States in arguing that the NICs should progressively apply GATT rules. He felt that there was now a greater opportunity to press the Commission to take effective action, since it was under greater pressure in this area, particularly from the French. There was some scope for taking unilateral action within Community rules under Regulations 242 and 288/82; while these only permitted national action for 1-3 months after which, in the absence of Community approval, it would have to be withdrawn, this could be a useful weapon. The United Kingdom was not in a position to take unilateral action against other Community countries without attracting retaliation, but at some point it might be necessary to consider whether it was necessary to take unilateral powers to act outside the Community, for example by extending the Protection of Trading Interests Act.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he endorsed the main thrust of the analysis by the Secretary of State for Trade. He agreed that there was a need for a more robust attitude, but the fundamental objective in adopting it should be to expand trade and not to retreat into protectionism of a kind which would damage the open trading and payments system. He agreed that officials should study the options in the Secretary of State for Trade's Memorandum as a matter of urgency with a view to identifying measures which would both be effective and produce a net benefit to United Kingdom.

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industry. He also agreed with the Secretary of State that it would be right to work so far as possible within the Community, since this would reduce the United Kingdom's exposure to retaliation, both by other countries and through the United Kingdom and European Courts.

MR SPARROW agreed that progress should be sought through the Community and GATT machinery. The Memorandum by the Secretary of State for Trade and the Note by the Central Policy Review Staff mentioned a variety of informal measures which might be used to strengthen the position of British industry. These should be the subject of an urgent study which should assess the balance of advantage in each case including the possible impact on the cost structure of British industry and the cost of living, as well as the risk of retaliation.

In discussion of the stance to be taken in GATT, it was suggested that it was reasonable to expect a progressive dismantling of tariffs by the NICs, and that the preferable credit terms they enjoyed should also be reviewed. It was noted, however, that previous experience with countries such as Indonesia had shown that there was a risk of trade retaliation, and that it was therefore important that the structure of our trade in each case should be carefully examined to avoid damaging a substantial existing British export by pressing for greater opportunities in a sector where the potential was limited.

In discussion of the scope for action through the Community, it was argued that it was unrealistic to expect results at all quickly; even if the case were referred to the European Court a year or more could elapse. This meant that countries such as France and Italy were able to gain substantial benefit from their infringements of Community regulations. On the other hand, it was suggested that, while action through the Community did take time, a case if made with sufficient force could produce effective results. A current example was provided by steel where Commissioners Davignon and Andriessen shared the United Kingdom's view of the action which should be taken. It was also noted that, even if action through the Community was unproductive, there would still remain the possibility of bilateral measures.

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In discussion of the principle of unilateral action, it was suggested that it was not surprising in the depth of a recession that there should be a revival of the 1930s argument that high tariffs could consolidate jobs, and it was likely that this issue would be at the centre of the political argument over the next 12 months. It was important therefore that any unilateral measures should be presented as a way of making the open trading system work, by pointing out, for example that goods could not be traded freely unless the necessary conditions were present. It was also essential that any unilateral action should be properly focused. Competitiveness would be damaged and inflation increased if imports of low price, high quality goods were restricted to protect industries producing high price, low quality goods in this country. The problem was often not so much the degree of import penetration and the barriers to our exports as the standard of quality and design in the British product, perhaps particularly in such areas as hi-fi, video, television, and consumer durables. It was also arguable that, given the balance of payments surplus, this was not so much a trade as an employment problem. Differences in working practices could also lie behind some of the difficulties: for example, the disparity between the number of men needed to build a car overseas and in this country. It was pointed out, however, that the difficulties over our exports could be exaggerated; the United Kingdom exported £4,000 million of goods each week.

In discussion of the scope for unilateral action, it was argued that our membership of the Community and of the GATT severely limited the opportunities for measures of this kind, and that against this background it was important to avoid publicly raising hopes that it might well not be possible to fulfil. It might also be a mistake to use bogus safety arrangements in order to close our market. Unilateral action could raise a number of problems, both in political terms if the action were vetoed by an international body shortly thereafter, and on the practical plane in the shape of retaliation and the effect on the exchange rate. On the other hand, it was felt that, so long as the emphasis were put on increasing competitiveness, there was scope for some resort to special measures. This view was supported by this country's success in bringing the French to the negotiating table about acceptable levels of poultry imports as a result of the United Kingdom's import restrictions.

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and by the voluntary restraint agreements with Japanese industry. Without an arrangement of this kind, it was probable that this country would have no numerically controlled machine tool industry. Spain, about which the Foreign and Commonwealth Secretary had minuted the Prime Minister with certain proposals, was a further example of where a determined effort might well produce results. There might also be some scope for action in the field of public purchasing both through more effective presentation of our policy and more speedy action in particular cases.

In discussion of the particular proposal for a Trade Reciprocity Act, it was argued that this would be in breach of the EC Treaty, and would involve a very controversial amendment of the European Communities Act. The United Kingdom would inevitably be defeated in the European Court and there would be the strong possibility of cases being brought against the Government in United Kingdom courts. It would not only be fundamentally subversive of our membership of the Community but could also undermine the possibility of dealing effectively with abuses within the Community framework. This measure, which would be counterproductive, should therefore only be a solution of last resort.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that a genuinely open trading system was in the United Kingdom's interest, but it noted that there were certain practical problems, which were particularly apparent in the case of Japan and the very adverse tariff balance with Spain. The Committee endorsed the Secretary of State for Trade's proposal that officials should examine options for action to secure better opportunities for British exports in the face of protectionist trade policies. The best hope of making progress was a case by case approach pursued with energy and application. The proposal for a Trade Reciprocity Act should not be further examined for the time being.

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The Committee -

1. Endorsed, subject to the points made by the Prime Minister in her summing up of their discussion, the conclusion in paragraphs 14 and 15 of E(82) 71.
2. Invited the Secretary of State for Trade to arrange for officials of the Departments concerned to examine the options for action through the Community and the proposal for an Imports Advisory Board, and to report.
3. Took note that the Secretary of State for Trade was circulating to his colleagues a statement of the line he proposed to take at the General Agreement of Tariffs and Trade Ministerial meeting.

Cabinet Office

29 October 1982

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