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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

TRADE POLICY

Note by the Secretary of State for Trade

The papers referred to in E(82)77 are attached.

Department of Trade
1 Victoria Street
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AC

13 ~~October~~ 1982
December

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JAPAN

Note by the Department of Trade

UK Trade Policy vis a vis Japan

1 The main objectives of our trade policy towards Japan have been, and remain, related to the following main areas:

- (a) an early and significant reduction in the growing deficit on our balance of trade;
- (b) the protection of particularly sensitive and vulnerable industrial sectors from the most severe effects of over-rapid market penetration by Japanese imports (in a few sectors this has been achieved through Government backed inter-industry arrangements);
- (c) the opening up of the Japanese market to UK exports.

2 Related to these objectives are those of encouraging the Japanese to order their economy so as to secure a more realistic value for the Yen; and of encouraging inward investment by convincing Japanese companies that in future the only way of

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maintaining their position in the UK market will be by investing in manufacturing in the UK. Greater success in this area could go a considerable way towards solving problems (a) and (b) above. Although it would have no direct effect on our ability to export more to Japan herself, it could result in greater exports to third countries.

Background

3 The deficit on our visible trade with Japan has risen from £1 bn in 1980 to £1.5 bn in 1981 and could well reach £2 bn this year. (See the graph at Annex). This is slightly offset by a balance in the UK's favour on invisible trade which has risen from £350m in 1980 to £425m in 1981. But the general picture of a large and rapidly growing overall deficit remains. And it continues to grow notwithstanding the voluntary restraint arrangements applying to some 25% of Japanese exports to the UK. The UK has bilateral imbalances with other trading partners. But that with Japan is unique both in its size relative to the total trade and in its dramatic growth.

4 The Japanese market is not as accessible to UK exporters as the UK market is to theirs. The formal barriers to trade are admittedly modest, although there remain some high tariffs on certain goods. The informal barriers remain formidable. For several years we have sought through a range of special measures to help British exporters. Many have tried hard but failed to penetrate the market. The UK experience is common to our European competitors and to the US, none of whom have had any greater success than we have in increasing market share. Japan's imports of manufactured goods are proportionally the lowest by a large margin of the major industrialised nations ($2\frac{1}{2}\%$ of GNP compared with 6% for the EC and $13\frac{1}{2}\%$ for the UK).

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5 Discussions with the Japanese bilaterally and through the EC on opening up their markets have gone on for years but progress has been minimal. The latest attempt, through the Article XXIII discussions in the GATT, has been in train for several months without showing any movement towards the EC's objective. Yet Japanese reactions suggest that we have at last touched a raw nerve. There are also signs that the Americans may at last be prepared to give the EC some support in this action. If so, the prospects for adjustment to Japanese policies will be significantly improved. The December Foreign Affairs Council will be urged by the Commission to step up the GATT procedure by seeking a working party to evaluate the EC's complaint.

6 Meanwhile the French have adopted unilateral measures to delay Japanese imports. The Commission while attacking the measures have put to the December Foreign Affairs Council a package including proposals for VRAs in sectors still to be agreed (colour TV tubes and Video Tape Recorders (VTRs) are likely candidates). France and Italy fully support this approach - but only as an alternative to a move towards Article XXIII.2. At the same time we need to consider what, if any, independent action we can take in support of specific objectives of our own, consistent with EC obligations in case Community action fizzles out.

Possible UK action in Addition to coordinated Community approach

7 History has shown that a real threat of formal action is necessary to make the Japanese move. At the same time the need to maintain "face" is important in the Japanese culture and there is a need for incentives as well as threats. Possible new action on a national, as opposed to general Community, plane could include

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a combination of more restrictive inter-industry arrangements and covert barriers (although the scope for the latter is small). We could also consider the imposition of formal import restrictions, but we would need Community backing to maintain them for more than 1-3 months and their value is greater as a threat than as an actual weapon. Such additional pressures on Japanese imports might be allied to clear indications that increased inward investment would not only help the Japanese maintain their market share, but would also help HMG to withstand pressures for even more draconian measures.

8 These measures would not directly achieve the objective of improved access to the Japanese market for UK exporters. But, by signalling so strongly our determination to reduce the imbalance, they could step up the pressure on Japan to buy some of the bigger capital goods, in which we have a lead, such as aircraft and defence equipment. They could also induce Japan to invest more in the UK despite the acknowledged problems in some advanced technology areas (eg VTRs) relating to British industry's ability to provide the complex components required.

More Restrictive VRAs

9 The reductions needed in the levels of Japanese exports to bring about a significant change in the balance of trade are so severe that they would not be accepted voluntarily by Japanese industry which is heavily dependent on access to overseas markets. Nor would the Japanese Ministry of International Trade and Industry (MITI) be likely to use its influence to get them to agree. So HMG could not expect British industry to renegotiate existing VRAs on a more restrictive basis or set up stiff new ones unless HMG was ready to issue a strong and credible threat of official action (eg imposition of quotas, tariffs or other barriers).

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Legal Instruments

10 Two legal instruments are relevant to the imposition of informal import restrictions. The first is the Treaty of Commerce, Establishment and Navigation of 1962 - the Anglo-Japanese Trade Treaty - by which the UK has reserved rights to take selective action against particular Japanese imports which are causing or threatening serious injury. The second is Council Regulation 288/82 which provides common rules for the restriction of imports into the Community in certain conditions.

11 The relevant criteria for taking action in both cases are based essentially on Article XIX of the GATT. The crucial difference is that the bilateral Treaty provides by implication for selective action to be taken against imports from Japan into the UK whereas the EC Regulation does not. Although the Community (led by the UK) maintain that selective action may legitimately be taken under the Regulation this view is strongly challenged by GATT members outside the Community. Such challenge would be avoided by using the Treaty.

12 Because trade policy is now a matter of Community competence restrictions under the Treaty would be subject to Community procedures and would need the acquiescence of Member States. In contentious cases this means that we would need to win at least a qualified majority decision of the Council within, at most, 3 months of imposing restrictions. In practice, therefore, we should need the support of two of the larger States and three or more smaller ones to be sure that our action was fireproof against legal action in the UK courts and the European Court.

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13 Under the Treaty Japan has the right to compensation by retaliation against our exports. The largest of these - whisky, textiles and pharmaceuticals - could be subjected to restrictions or tariff barriers by Japan in direct proportion to our curtailment of Japanese exports. There is no doubt that the loss of Japanese trade would be a serious blow to any of these sectors (9% of whisky exports and 25% of high quality woollen textile exports go to Japan) but with the very substantial trade surplus Japan enjoys with the UK she might well hesitate before escalating matters too far.

Criteria for Imposing Restrictions

14 In considering where restrictions might best be imposed, we have to bear in mind the two objectives of policy which may not coincide. The first is to bring pressure to bear on Japan to open its market and the second is essentially to transfer jobs from Japan to the UK (or at least to ensure that no more jobs are transferred from the UK to Japan). The main categories of imports from Japan are not in areas where UK firms encounter overt barriers or are sufficiently competitive to hope to sell significantly into Japan. Nevertheless, where such barriers do exist, we should continue to press vigorously. The EC has recently presented a list of detailed specified requests to help improve access to the Japanese market and the US is pursuing the Japanese bilaterally on import barriers to certain agricultural products. But in practice it is progress towards the second objective of policy which is likely to produce most immediate results.

Specific Sectors for Restrictions

15 On present trends, the total value of imports from Japan in the current year could reach £2½bn. The main components are:

	Probable Value (£m)
Consumer electronics goods (including VTRs and audio cassettes)	700
Vehicles	450
Motor cycles	100
Office Machinery	150
Photographic Equipment	100

16 VTRs are likely to account for some £400m (2 million units) this year. Only about 10% of the UK market has yet been satisfied, mostly by Japanese equipment, and this is estimated to grow by 20% over the next 5 years. A joint venture between Thorn and JVC recently began production of VTRs but output levels will be modest even by the end of 1983 and UK content is low. In these circumstances the use of our Treaty could not be justified to impose restrictions, although the Commission have indicated that VTRs would probably be one of their candidates for an EC VRA. This would be in defence of hard hit continental producers - Thomson/Brandt, Grundig, and Philips (who have submitted an anti-dumping complaint against the Japanese). Progress on a VRA would of course require the Germans and others to acquiesce. If we were to take any action, consumer interests would need careful handling. But we must investigate the possibilities, including using the threat of a VRA, of inducing other Japanese companies to manufacture VTRs here.

17 The next largest item in this general field is audio cassettes, of which imports could be over £100m this year. Here again there is no UK production nor prospect of any, and so no case under the Treaty for action. There is, however, ample capacity in Germany (with whom we have as large a deficit on manufactures as we have with Japan). Restrictions against the Japanese would not therefore help bring about import substitutions. The colour TV tube sector, where the Commission appears to favour an EC VRA, is also facing tough Japanese competition - though import levels have fallen this year. The UK has a single producer (Mullards, a Philips subsidiary) and we would wish to see Japanese CTV producers in this country increasing their use of Mullard tubes for their larger sized CTVs.

Vehicles

18 Under the current inter-industry VRA, the SMMT expect Japanese penetration to fall to between 10.4% and 10.8% of the market for cars in 1983 and to reach about 13% of the market for light commercial vehicles. The SMMT, under pressure, tried at their talks in October to negotiate lower import levels but JAMA resisted even a marginal reduction. To get a reduction down to or below 10% would need formal Government action. The benefits of the VRA have hitherto been largely but not entirely, reaped by other EC countries. This would remain the case if

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we sought lower levels. The move could, however, push Nissan into deciding to build cars in the UK for the UK market and the EC (though the opposite effect cannot be entirely ruled out). Action under the Treaty could be facilitated if the VRA broke down: our manufacturing industry then would come under "threat of serious injury". The Commission and the other Member States would find it difficult to strike down protective action in those circumstances. Pressure could be put on the Japanese to reduce the acceptable penetration of light commercial vehicles to the same level as that for motor cars (eg 10.4-10.8%); and for them to renew the assurances given in previous years (but not explicitly in 1982) that they will not export heavy goods vehicles to this country.

Motor Cycles

19 Imports from Japan have been steady at about £100m for the past 2 years. Manufacturing capacity in the UK is small. Italy and Eastern Europe would be most likely to fill any gap. Stocks of Japanese machines are thought to be very high. It would be difficult to mount a case now; the UK industry lost this battle many years ago.

Office Machinery

20 Although in total, office machinery imports will amount to about £150m this year, UK manufacturing capacity exists only for photocopiers. Imports from Japan in 1982 at about £50m (£20m in 1980) could give ground for action under the Treaty. There has been complaint about Japanese competition, particularly at the cheaper end. But the main producer, Rank Xerox, is inhibited by its world-wide interest in maintaining open markets as well as by the fact that it has useful sales in Japan from its UK factories.

Nevertheless, we will be looking closely at the need for Japanese export restraint in this sector.

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Strategic and Sensitive Industries

21 Two industries, particularly, are under pressure from Japan: numerically-controlled machine tools and fork-lift trucks. Total imports could amount to £32m and £8m respectively in 1982. Discussions, which we expect to lead to a VRA, are in train. If the outcome was unsatisfactory the case for restrictions could be argued under the provisions of the Treaty. Similar discussions for fork-lift trucks are also taking place. In both cases, we have an industry under threat of injury. There might be some support in the EC for action on machine tools: the French are keen and the European Trade Association has sought support from the Commission for restrictions.

Conclusions

22 (a) We should support the Commission in toughening the Community's policy towards Japan including the possible introduction of new VRAs and work for closer concertation of EC and US positions.

(b) Nevertheless, as these moves will not necessarily yield any benefits in the short term, we should sustain the pressure on Japan bilaterally to buy some of the capital goods in which the UK has a lead (eg aircraft and defence equipment) and to invest more (and faster) in the UK.

(c) This will mean indicating a willingness to contemplate further unilateral measures to restrain imports. But we must bear in mind:-

(i) While the means exist to impose emergency selective

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restrictions on Japanese imports which are causing or threatening serious damage to UK industry, such measures would need to be upheld in the EC; the maximum duration without such support would be 3 months; and it could be as little as one month.

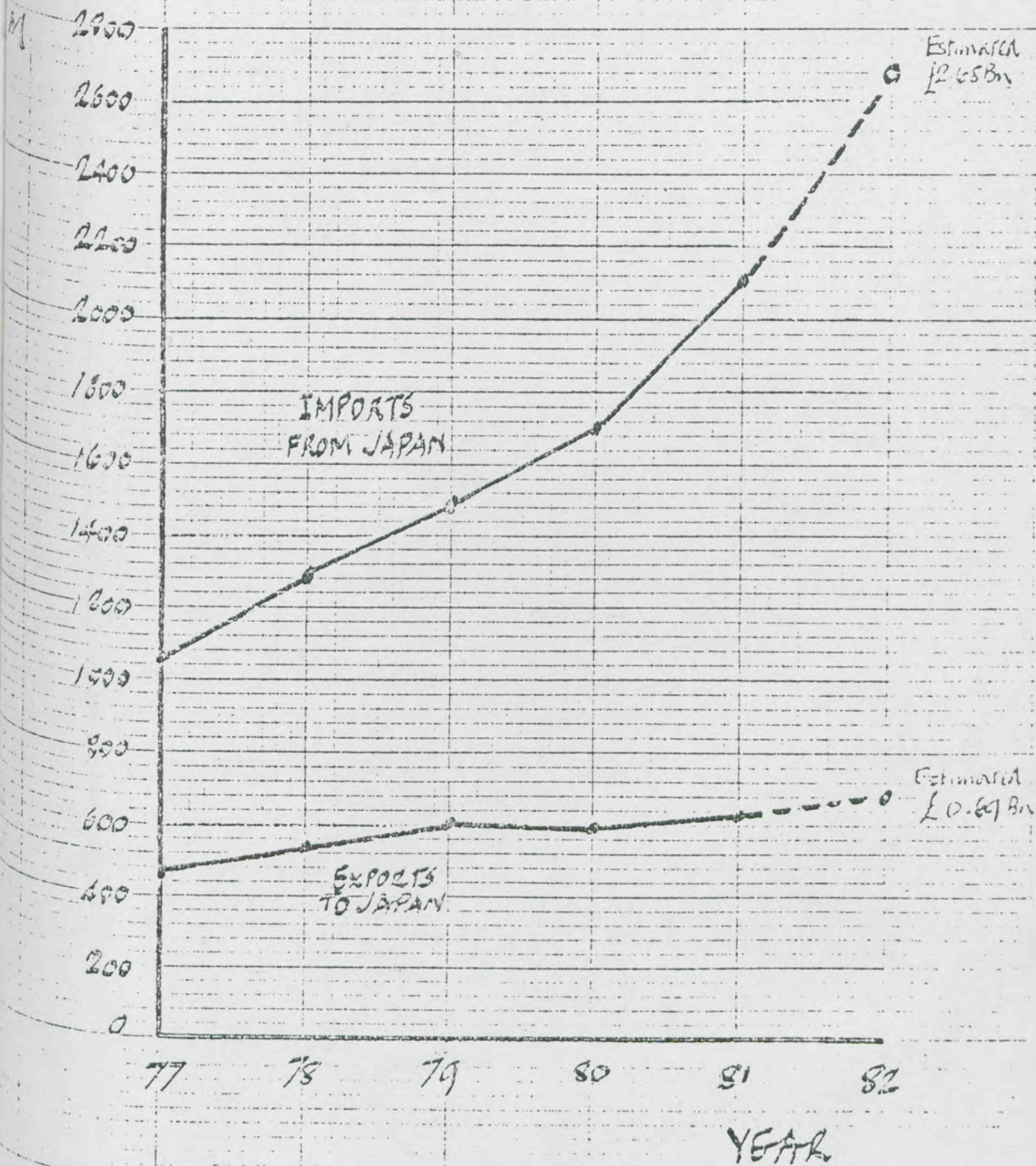
- (ii) Without credible threats of such formal Government action more restrictive inter-industry VRAs will not be possible.
- (iii) Apart from vehicles, UK manufacturing capacity for the other Japanese products imported in large quantity (ie over £100m) is currently small. Provided imports from other countries were not permitted to fill the gap left by the Japanese (a major proviso given the EC potential in many products), UK capability could probably be developed in due course, possibly with Japanese investment, implying acceptance until then, of some unsatisfied consumer demand. There could be particular difficulties relating to British industry's ability to provide a comprehensive range of state of the art components in some sectors (eg VTR circuitry).

Department of Trade

8 December 1982

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UK - JAPAN TRADE



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SPAIN: PRE-ACCESSION TRADING CONDITIONS

(Note by the Department of Trade)

In recent years trade between the United Kingdom and Spain, running at £750m pa, has broadly balanced. This year we expect to go into deficit to the tune of £50m. In 1981 our invisibles deficit was £450m; almost entirely due to tourism. Our future visible balance will be significantly conditioned by Ford sourcing policy, and the success of the new GM car to be produced in Spain. Without action we may face a very heavy adverse balance on the visible as well as on invisible trade.

But if, historically, our visible trade has been broadly, balanced, the terms of that trade manifestly have not. Spain's failure to honour certain obligations under her 1970 agreement with the Community and her protection of industries which have grown strong behind grossly excessive duties means that access to her market is frustrated whilst those of Member States are virtually wide open. At our insistence, the Foreign Affairs Council will discuss what action the Community should take to remedy both matters at its meeting on 13/14 December. We have made it clear that we cannot wait for accession to settle the problem.

Reactions

2 Although our grievance is not challenged, other Member States and key Commissioners do not give it the same priority. They are more preoccupied with other issues: Spain's membership of NATO, European solidarity, her agriculture and so on. Commissioner Natali makes considerable virtue of his readiness to insist on the terms of the 1970 Agreement; but past failures to secure improvement already undermine his sense of determination. As for reductions in Spain's tariff, he and other Member States pretend to believe this means renegotiation of the 1970 Agreement with counterpart from the Community. That would involve agricultural issues which must be postponed to the accession settlement. This factor means there is not even a shared resolution to secure a short transition to free trade in manufactures following Spanish entry.

3 In Spain, the new government faces severe inflationary and exchange rate problems coupled with growing doubts about the challenge of Community membership in manufacturing circles. The 1970 agreement gives her tariff privileges which she is determined to hang on to for as long as possible. There are signs that Madrid may begin to understand that we mean business and be anxious to avoid a confrontation with HMG: they already face awkward French tactics on accession. But they must also be conscious that France and Germany with sizeable investment in Spain's car industry would not welcome across-the-board reductions in its protection and the only new reaction has been to avoid the issue in its essentials by suggesting that the car companies should get together to solve problems in that sector (see below).

4 Meantime, frustration about unfair Spanish competition - notably but not exclusively in the vehicle sector - is prompting a crescendo of criticism particularly in the West Midlands constituencies. GM's installation of a new plant in Spain to manufacture a model, the Corsa, which would compete with the Metro is the last straw. Those in the Commission who are most familiar with the financial and social costs of the restructuring of BL (which has

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been undertaken with Community approval) and with the tensions created by Spain's textile and steel policies are more sensitive to this mood. So are those concerned to voice the Community's criticism of unjustifiably protective tariffs in the world trading scene. But so far the only suggestion has also been that we should consider voluntary restraint arrangements to check exports of cars from Spain to the United Kingdom (see above).

Policy Options

5 Restraint of Spanish car imports would have political appeal. Proper implementation of the 1970 agreement would assist our whisky and tobacco trade and put our exporters generally on a fairer footing. It is not of much interest in the West Midlands. Even cuts in Spain's automotive tariff could be less interesting than a deal on her car exports. Such cuts could be genuinely valuable to the upper ranges of UK car exports and be solid evidence that Spain understands that she cannot hang on to grotesque levels of protection; but erosion of BL's crucial home market is likely to be of more immediate concern. In practice Spain has been using her tariff to attract inward investment and, buttressed by stringent requirements as to domestic content and export performance, to build up powerful export trades not only in cars. It is not surprising that taking Japan as a precedent it is argued that limits should be set on imports from Spain.

6 Temporary obstruction or restraint of Spanish imports might be leverage to focus Madrid's attention on our demands for fair access to the Spanish market. Over a longer term

(i) restraint would not be visibly consistent with our support for enlargement;

(ii) it would (arguably) help the sector of British production concerned, subject to Community supplies not filling the vacuum; but so far from assisting our exports to Spain it would expose them to retaliation unless established on an agreed basis;

(iii) the prospect of sustained and effective voluntary restraint is not encouraging if Spain's performance on steel and textiles is taken into account;

(iv) it could not be sustained on a voluntary basis without Community acquiescence nor on a unilateral basis without Community cover. Chances of indefinite cover are minimal.

7 Direct action to obstruct Spanish imports, as leverage until there is a suitable response from Madrid, can be considered in the form of Community safeguard action under Article 11 of the 1970 agreement or unilateral emergency action under Regulation 288/82 (which also requires rapid Community sanction). There must first be prima facie evidence that the imports concerned are disruptive. France at least imports more Spanish cars than we do. Our case has rested on the uniquely rapid increase in UK imports (thirty

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fold in three years in unit terms). But now Ford management tell us that from January next they will switch imports for the UK market from Spain to Cologne. So until Corsa supplies actually build up our case will be that much weaker. (Our case would be similarly weak on footwear where Spanish imports take only about 3.5%* of the UK market).

8 A less open, but still pointed, challenge would be administrative obstruction of Spanish imports. These possibilities have been canvassed:

(a) rigorous enforcement of the Trade Descriptions Act 1972. The Commission, currently taking formal steps to challenge other UK and French origin marking requirements, would be particularly alert to fresh moves.

(b) ponderous application of type approval procedures so as to endanger GM's target of launching the Corsa in June/July. This would expose us to retaliation in kind; and, if so conspicuously drawn out as to be improper, to juridical procedures (as the Attorney General has confirmed) and the Parliamentary Ombudsman.

(c) exploitation of the recent discovery that one consignment of Spanish footwear included items containing sperm whale oil, contrary to Community regulation 348/81. Provided Spain takes firm steps to conform to Community requirements, this has a limited life span.

9 Such gestures depend on sufficient potential damage to commercial interests to revoke response in Madrid. Officials have discussed with senior management of the two multinationals based in the UK what are their international organisations plans for meeting requirements of the UK market from Spain. As noted Ford now plan to terminate Spanish supplies. GM will launch the Corsa next summer. About one sixth of their exports will be destined for this market, ultimately reaching 45-50,000 units per annum. (No Corsas will be manufactured here. In certain circumstances there might be a useful increase in production of the Vauxhall Cavalier). Both contacts are alert to the dangers of growing domestic criticism, understand the advantages and room for immediate and major cuts in Spanish car duties and have undertaken to consider representations in Madrid by their organisations for urgent action. The Secretary of State for Trade and the Minister of State for Industry will meet them further on 13/14 December.

Conclusions

10 We need not merely proper implementation of the 1970 Agreement but Spain's contribution to the open trading system. Suggestions that we should seek export restraint rather than immediately increased access to her market are plainly attractive. They could prove illusory and ultimately less rewarding.

11 To secure our objective will not be easy. We need Community support, so we must not allow others to desert us. We should

* Provisional figures for 1982.

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also mobilize commercial pressure in Madrid. Unless current exchanges in the FAC and with commercial interests prove decisively negative (which seems unlikely at this stage) we believe that we should continue to press for these positive objectives.

9 December 1982

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CURRENT PROBLEMS IN TRADE WITH SOME
NEWLY INDUSTRIALISING COUNTRIES

Note by the Department of Trade

Introduction

This paper deals with selected current problems in trade with some Newly Industrialising Countries (NICs) in the light of Ministers' concerns about unfair market access. It is not intended to be a comprehensive examination of our trading difficulties with the NICs as a whole, nor a formal look at the problems which are likely to manifest themselves in the next 10 years.

2. The Ministers' stated objective is to reduce obstacles to British exporters in overseas markets. This would provide better opportunities for British exporters and also remove a perceived unfairness which causes resentment in British industries facing competition from the NICs in the home market. Where the NICs retain high barriers, it is for consideration whether it is in our interest to seek import controls so as both to encourage the NICs to reduce their barriers and compensate British industry for the lack of access.

Background

3. There is no standard definition of a NIC. Some are competitive across a relatively wide range of products, others only in a few sectors. Some maintain an open market, most are restrictive. Some poor developing countries not usually classified as NICs, notably India, have considerable industrial capability and are a growing threat in world markets. NICs are generally low cost producers, and pose a threat to traditional industrial economies. Because they are classified as developing they enjoy special privileges under Part IV of the GATT which exempts them from most ordinary GATT obligations.

4. The NICs have for some time been the most rapidly growing part of the world economy and provide an important market for UK exports, particularly in the heavy industrial and engineering sectors

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and there remains considerable potential for further sales. However, some NICs operate an aggressive policy of export-led economic development, coupled with a restrictive import regime. It is these countries in particular which cause extensive domestic resentment of the trading privileges the NICs enjoy.

SCOPE FOR GENERAL ACTION

The GSP

5. The admission of some NIC exports duty free under the GSP is a source of much resentment. Imports of sensitive products under the Community's Generalised Scheme of Preferences (GSP) are subject to individual quotas or ceilings for each exporting country. With one or two anomalous exceptions, quotas are only imposed against NICs. As soon as the quota is filled, the ordinary MFN duty under the Common Customs Tariff is automatically reimposed. In other cases, when a ceiling is reached for a sensitive item, the duty is reimposed at the request of a Member State. This reimposition is not automatic, and each Member State considers the state of its industry, and the case for and against reimposition, before making a request. The UK has been trying to tighten up the GSP but it is a long task.

6. Taiwan is not eligible for the Community's GSP, and imports from that country are subject to the Common Customs Tariff.

Negotiations in the GATT

7. The GATT Ministerial Meeting accepted a Community proposal that there should be a feasibility study on North/South trade. This should lead in due course to a negotiation. At the outset of these negotiations the Community could, if it wished to provide itself with some bargaining power, give notice that on the conclusion of the negotiations all the NICs would be excluded from the Community's GSP. They would thus have to pay for any equivalent concessions which they valued in the negotiations.

OTHER APPROACHES

8. It will take time to complete a GATT study and it is unrealistic to expect positive results in the short term. The UK on its own is most unlikely to achieve its objective of reducing the privileges of the NICs. That leaves the possibility of short-term direct action against imports from those countries which cause us most difficulties. Such action would have to be justified on the ground that it was a means of compensating British industry for the lack of access to other markets, and in order to bring pressure to bear on the NICs.

9. Our powers to control imports are those laid down in Regulation 288/82. They are summarised in Annex A. The selection of candidates for action is not straightforward. Horizontal action, by product sector, against NICs would offer greater benefit to UK manufacturers of competing products. But it would involve action against those NICs which maintain open markets (notably Singapore and Hong Kong) as well as those which are restrictive. This does not fit comfortably with Ministers' objectives of open trade and better market access, and would therefore be hard to justify.

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10. In the case of countries which are competitive in a very narrow range of products, there would be domestic advantage in restricting access in sensitive sectors (eg. leather footwear from India). However, there would also be difficulties in acting this way. Many of these developing countries have a low per capita income. Restricting their few competitive industrial exports will be seen as deliberately perpetuating their poverty.

11. This leaves action against sensitive exports from more developed NICs which compete across a wide range of products which we know to be causing problems for UK industry and which do so behind high domestic protection. Annex B sets out our trade with a selection of NICs. On the basis of the arguments in paragraphs 9 and 10 above there seem to be three clear candidates for action.

INDIVIDUAL COUNTRY OPTIONS

Taiwan

12. Taiwan is not a member of the GATT. It enjoys a healthy balance of trade and has consistently had a surplus in visible trade with the UK. Our principal exports are road vehicles, chemicals and machinery. All imports into Taiwan are subject to licence and import duties are generally higher than those applied by the EC (despite some recent reductions on a list of items of interest to the EC).

13. Sensitive exports from Taiwan include footwear (subject to an industry VRA), cutlery, locks and padlocks, small screen monochrome TVs (industry VRA), pottery (industry VRA), music centres (industry VRA), radios, furniture, tape recorders, toys, games equipment, umbrellas, hand tools, textiles and clothing (MFA). (Details in Annex B).

14. There are trading opportunities for the UK in Taiwan in areas such as civil engineering and consultancy, high quality consumer goods, fine chemicals and pharmaceuticals, IT, computer software and high technology generally. A recent contract with NEI worth £80m has been halted for general economic reasons but a UK consortium is conducting a study which may lead to work in the construction of a mass transit system for Taipei. Our best assessment is that whilst they are aware of their vulnerability to UK action, the Taiwanese would respond sharply to frontal attack, and the existing VRAs will be put at risk. The alternative of a behind the scenes approach is made difficult, but not impossible, because of the absence of formal government to government contacts. These could, however, be arranged.

Korea

15. The UK has a growing visible trade deficit with Korea, partly offset by a surplus on invisible trade. Our principal exports are capital goods. Imports are subject to licence which restricts most consumer and some capital products; some tariffs are being slightly reduced but are high on competing products and luxuries like whisky, and import substitution is vigorously promoted. The Korean government claims that it intends to liberalise imports to the level of advanced industrial countries by 1986. South Korea is highly conscious of the threat of military action by North Korea and 6% of GNP is spent on defence.

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16. Sensitive exports to the UK include: textiles and clothing (MFA); footwear; consumer electronics; cutlery (all bilateral industry VRAs); steel (EC VRA); cars (see separate paper); leather goods; toys; and pottery (likely to be subject to EC VRA shortly). There are also complaints about the Korean shipbuilding industry.

17. UK companies are currently bidding for major project particularly: Busan Metro (2 UK bids approximate UK content £45m); Seoul Busan railway; steel mill with potential UK content of £800m; 2 nuclear power stations with generators worth £100m; Skyvan sale and assembly deal worth £270-300m; Hawk sales could be worth £80m. Projects of this scale are subject to intense political lobbying, and can be swayed by the Korean government. Action on Korean exports would therefore affect UK chances of successful bids.

Brazil

18. Brazil enjoys a trade surplus with the UK, but is itself in balance of payments difficulties. Inflation is running at 95%. There is concern that the 1982 borrowing target may not be met. Our principal exports are capital goods, machinery and chemicals. Projects worth about £100m are currently under negotiation with British firms.

19. Imports are subject to high tariffs and licences which protect equivalent domestic manufactures: import measures are justified on balance of payments grounds under the GATT.

20. Sensitive exports to the UK include footwear; textiles (MFA); steel; paper and pulp. Exports of footwear are of particular concern to the UK industry, since this is one of the few remaining major uncontrolled sources of cheap footwear, particularly high quality leather footwear which is especially sensitive. The Brazilians have so far refused to cooperate in a VRA on footwear.

Department of Trade
7 December 1982

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EC Regulation 288/82

This lays down two routes for protective action.

- (1) Article 15: Seeking Commission action, with the possibility that a favourable decision would be referred to the Council by another Member State (such as the FRG). The Council would then decide by qualified majority whether action could be taken.
- (2) Article 17: Emergency action, in advance of seeking Commission authorisation. The Commission will then decide whether to support the action. If it decides against, or proposed different action, we can refer the matter to the Council. Our unilateral measures can run for one month in these circumstances before a Council decision. This period can, by Council decision, be extended to three months.

2 Regulation 288/82 also provides for an open investigation of the case for protection identified by the Commission or a Member State (Article 6). An investigation would invite evidence from exporters and consumers as well as domestic manufacturers. It would take account of a list of factors set out in the Regulation including import volume and price, stocks, market share, capacity and employment. A final Commission recommendation on protective action would hang on the outcome of such an investigation and the outcome would no doubt also influence the Council. Thus HMG's assessment of damage and threat would be subjected to external scrutiny, and the continuation of emergency action implemented under Article 17 of 288/82 beyond a maximum period of 3 months would be subject to Council agreement.

Country	Exports to UK Jan-Aug 1982	Imports from UK Jan-Aug 1982	Overall visible trade balance with UK in 1981 (* = UK deficit)	Financial state	Barriers to UK exports	Exports of sensitive products to the UK Jan-Aug 1982	Estimated share of UK market Jan-Aug 1982	Other comments
Singapore	£145.5m	£268.3m	-£168m (estimated)	Sound	None	PMTVs(VRA) £3.3m CTVs £8.3m	11% 5.6%	Open market Projects at risk
Thailand	£51m	£71m	-£36m (estimated)	Sound	None of great significance	PMTVs(VRA) £.3m	1.6%	Projects at risk Industrial imports from Thailand £2m out of total of £51m
Hong Kong	£577.7m	£503.6m	+£272m	Sound	None	Clothing & Textiles (MPA) £390m CTVs £1.6m 1981	12.3% less than 1% 1981	Open market Projects at risk
Korea	£226.7m	£115.4m	+£171m (estimated)	Relatively sound	Tariffs & licences	PMTVs £.6m Clothing (MPA) £146.3m Footwear (VRA) £29.5m Textile fabrics (MPA) £26.2m Consumer Electronics (VRA) £21.1m of which Mono TVs £5.0m Cutlery etc (VRA) £12.3m Travel goods and handbags £15.7m Toys £7.3m of which soft toys £5.0m Pottery £3.9m of which stoneware £2.9m	3.3% 3.4% 7.4% 0.5% Penetration for Mono TV 11.3% Penetration of stainless steel tableware 60.0% 9% 2% Penetration of stoneware 16.8%	Special defence considerations 6% GNP spent on defence Projects at risk

Country	Exports to UK Jan-Aug 1982	Imports from UK Jan-Aug 1982	Overall visible Trade Balance with UK in 1981 (+ = UK deficit)	Financial State	Barriers to UK Exports	Exports of Sensitive Products to the UK Jan-Aug 1982	Estimated Share of UK Market Jan-Aug 1982	Other Comments
Brazil	£317m	£104m	+£196.5m	Difficult	Tariffs, Licences Import Quotas	Footwear £16.3m Textiles (MFA) £7.2m Steel £16.1m Paper & Pulp £6.6m	5.0% 0.6% 1.7% 0.6%	Balance of payments difficulties accepted by GATT. Projects at risk
Mexico	£53.3m	£134.3m	-£100.8m	Difficult	Tariffs and licences	Textiles £1.8m Office Machines £1.0m Clothing £.3m Electrical appliances £.2m	negligible negligible negligible negligible	Not GATT member Agreement with IMF will lead to rigorous public expenditure cuts and curtailment of imports.
India	£260m	£538m	-£345m (estimated)	Relatively Sound	Import licensing high tariffs	Textiles £23m Clothing £34.6m Steel £.3m Footwear £4.3m	0.7% 1.3% negligible 1.3%	Growing market for UK exports Projects at risk
Taiwan	£212.5m	£81.4m	+£201m	Sound	Tariffs and licences	Footwear (VRA) £15m Cutlery £.7m Locks, padlocks, keys, springs, safes etc £.6m Consumer electronics £15.5m (VRA on pm tv's) Furniture £7.8m Toys, Games, equipment £16.7m Umbrellas £3.4m Hand tools £3.4m Textiles (MFA) £7.3m Clothing (MFA) £30.4m	4.6% 4.7% 5.4% 5.6% 3.13% 8.9% 61% 2.9% 0.6% 3.0%	Major source of counterfeit goods Not GATT Member Projects at risk

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IMPORTS OF CARS FROM CERTAIN THIRD COUNTRIES

Note by the Department of Trade

Introduction

This paper considers how we should react to the prospect of increases in the import of cars from certain third countries. The table at Annex A sets out figures for imports of cars into the UK. Annex B gives details of the overall UK market. The tables show that the overwhelming majority of car imports come from the European Community (EC), Japan and Spain. Imports from other countries are small and until recently, tending to decline. South Korea, Australia and Romania are, however, now planning to export a significant quantity to the UK, perhaps 15,000 in 1983 for all three taken together (around 1½% of the UK market). The threat to the UK industry is that, once established, these imports will grow to take a major part of the market.

2. Cars imported into South Korea, Romania, and Australia face a combination of high tariffs, quantitative restrictions and high local content rules. In contrast, car imports have free access into the EC, at most paying the low external tariff (10%).

The question of Access

3. The Government's stated objective is to persuade other countries to reduce their trade barriers to levels more comparable to our own. But pressure by the UK in isolation is unlikely to get us far. This is not primarily because these countries are concerned at the prospect of competition from the UK (it is unlikely that the UK industry would be able to sell many cars in, for example, South Korea) but because any concessions they gave to the UK would need to be extended to imports from other GATT countries, including Japan, under the MFN rule.

4. Thus, the UK is unlikely to make progress in opening up these markets except by multilateral action through the GATT and in concert with our EC partners. We are therefore, likely to be faced with the choice between, on the one hand, putting up with the present situation, despite its publicly perceived unfairness, while working for improved access in the longer term. And, on the other

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hand, taking either comprehensive or selective action to restrict car imports to compensate for the British car industry's lack of access to overseas markets.

Comprehensive action

5. We could take action against all imports of cars, other than those from the EC and EFTA, under Article XIX of the GATT on the grounds that imports were in such increased quantities as to cause or threaten serious injury to domestic producers. Exporters affected by this action would be entitled to seek compensation or to retaliate for loss of trade. Such compensation or retaliation could be directed to the EC as a whole, rather than to the UK alone. There would be some difficulty with countries which enjoy preferential agreements with the EC, who would argue for better treatment, but most of these (other than Spain) do not export cars to the EC. We can however, only act under the relevant EC Regulation and ultimately only with the agreement of the EC.

6. The principal attraction of Article XIX action is that it sweeps up minor suppliers against whom it would be hard to justify selective action. Its major danger, apart from the problem of retaliation, is that we would be left defenceless against imports from Japan unless the Community supported the action. The process of seeking formal quotas would have demolished the existing VRA, and in the absence of a formal quota to replace it we should be wide open to Japanese exports.

Selective Action

7. Possible courses of action to contain the growth of imports break down into two categories; formal quota action or an informal arrangement. Quantities are too small to make the former sustainable.

8. But we could use a declared readiness to take emergency action even for a limited period as a negotiating counter. The threat of such disruption to supplies could worry UK dealers and reduce the general market attractiveness of the cars concerned.

Australia

9. The problem posed by Australian exports of Japanese designed cars is complex. There is the public perception that this is how the Japanese can get round the VRA. There is certainly to be a market for these cars, since demand for Japanese cars in the UK is unsatisfied because of the VRA. However, while the cars may be perceived as Japanese there can be no doubt that they can be strongly argued to be Australian. The local content requirement is 83%; the cars are made in Australia; the company is managed by an Australian and money for the project is said to have been raised in Australia. However, the exports will reach our open car market from a highly protected one, and benefit from export inducements in the form of duty relief on imported components related to export levels. We have examined the Australian scheme to see whether this import duty relief is a subsidy (ie. whether the returns are greater than the duty actually paid). We have found no evidence that this is the case. The scheme is an export incentive but not a subsidy.

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10. We have also considered the possibility that the Australian scheme will make it easier to dump cars in the UK. The combination of high tariffs giving high domestic prices and duty relief on some components will give Australian manufacturers room for manoeuvre in price structuring. To mount an anti-dumping case we would need to win the active support of the Commission and at least the assent of the other Member States. The Commission's view is that until trade takes place (no Japanese designed exports have yet taken place, though 3,000 are forecast from Mitsubishi - Lonsdale in 1983), and dumping and injury to Community industry are proved, there can be no formal action. We can of course start again, once the cars arrive.

South Korea

11. Unlike the Mitsubishi Lonsdale the Hyundai Pony will have to establish itself in the market. It is a new car from a new manufacturer. Imports in January-July this year amounted to 3,500 units. A build-up is forecast.

12. If we go for reciprocity of access in Korea, there might be scope for selling some UK cars at the top end of the Korean market, particularly for consumer goods, where we have competitive products. But such action could well put at risk current (and future) UK bids for major infrastructural and defence projects. An alternative would be to seek a VRA.

Eastern Europe

13. Actual levels are not high and so far exports have not posed a threat to UK production, though prices have proved an irritant. It looks as though the most effective brake on their market share is the quality of the vehicle.

GSP

14. Both Romania and Korea are eligible at the moment to export vehicles to the UK duty free under the GSP (the standard rate of duty is 10%). The UK has pressed hard for a GSP tariff quota for Korean cars under 1500 cc and this has now been formally agreed. This is a step in the right direction. It would be more satisfactory to eliminate cars from the GSP altogether but in practice this would not be possible before 1986 when the GSP comes up for major review.

Department of Trade
7 December 1982

SOURCE	1979	1980	1981	1982 (Jan-July)	Estimates 1983
TOTAL	1,071,000	872,000	817,000	603,000	990,000
Of which:					
EC	728,000	555,000	538,000	431,000	
Spain	52,000	71,000	60,000	28,000	
S Africa	200	200	40	40	
Japan	199,000	188,000	165,000	108,000	168,000
S Korea	1	N/A	N/A	3,500	6,000
Australia	400	300	90	50	3,500
					(5,000 if Toyota also export)
Brazil	20	2	6	1	
US	3,000	1,400	970	340	
Eastern Europe	45,000	26,000	23,000	20,000	
Of which:					
USSR	23,500	11,800	13,900	10,300	
Poland	10,800	7,100	1,700	4,100	
Czechoslovakia	10,800	6,900	6,900	5,600	
Romania	30	7	N/A	7	4,000

Source: OTS (SITC 781)

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Annex A

'000 cars

ANNEX B

	1979	1980	1981	1982 (Jan-Aug)
UK Production	1070	924	956	596
Imports	1071	872	817	657
Exports	410	359	300	157
Apparent UK Market	1731	1437	1473	1096
Import Penetration (Total)	61.8%	60.6%	55.4%	59.9

Source: SMMT publication "Motor Year Book of Great Britain" definition
used -
Cars: new, complete and chassis.

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Annex B