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MR TURNBULL

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY,
11am, 8 MARCH

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FLAG B

I attach a brief for the Prime Minister on Trade Policy
(ES(84) 1 and ES(84) 2).

I am sending a copy to Sir Robert Armstrong.

D F WILLIAMSON

7 March 1984

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MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY, 8 MARCH

TRADE POLICY

(ES(84) 1 and ES(84) 2)

Chairman's Brief for the Prime Minister

PURPOSE

To consider future United Kingdom international trade policy and, in particular, the line to take at the forthcoming OECD Ministerial Meeting and the Economic Summit.

BACKGROUND

2. The Williamsburg Economic Summit's Final Declaration contained a commitment "to halt protectionism, and as recovery proceeds to reverse it by dismantling trade barriers" (ie "rollback"). The Declaration also recorded the participants' "agreement to continue consultations on proposals for a new negotiating round in the GATT". The Japanese - with American support - followed this up in November by proposing "a new round of multilateral trade negotiations in order to consolidate the free trading system and to inject renewed confidence in the world economy". Both the general subject of rollback and the more precise proposal for a new GATT round have been under discussion within the Community and are likely to be taken up again at the OECD Ministerial Meeting and the London Economic Summit.

3. Ministers agreed last November that the United Kingdom should support Commission proposals for a first Community contribution to rollback through the acceleration of Tokyo Round tariff cuts and the elimination of quantitative restrictions on imports from the poorest developing countries. The Community's measures are due to take effect in January 1985. Present indications are that other OECD states will take

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similar action. There is no agreement yet with OECD on either a second phase of rollback or a new GATT round.

4. In the Ministerial correspondence about phase one of rollback, the Chancellor of the Exchequer suggested that action might be proceeding too slowly and proposed that ES should discuss the United Kingdom's strategy towards trade liberalisation and rollback. The Secretary of State for Trade and Industry's first memorandum (ES(84) 1) accordingly sets out the issues, considering first whether the United Kingdom should support a new GATT negotiating round and, secondly, what we could offer in stage two of rollback. It contains detailed papers by officials on both questions. His second memorandum (ES(84) 2) was drafted after his recent visit to Washington. It concentrates on the major issues, including the need to help the United States Administration resist protectionist policies, and sets out a number of clear conclusions (paragraph 14) which he invites the Committee to endorse.

MAIN ISSUES

5. The issues are -

- (i) whether the United Kingdom's objective should continue to be to work for the open trading system and, if so, which protectionist policies of other countries should be our major priorities for challenge and correction;
- (ii) whether the United Kingdom should be prepared to begin dismantling its own remaining protective measures (including voluntary restraint arrangements) as a contribution to rollback;
- (iii) how the United Kingdom should approach the questions of rollback and a new GATT round at the forthcoming meetings.

United Kingdom objectives

6. The Secretary of State for Trade and Industry concludes in ES(84) 2 (paragraph 14(a)) that it is in the United Kingdom's interest to maintain and strengthen the liberal trading system.

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In both ES(84) 1 and ES(84) 2 the following more specific United Kingdom objectives are identified:

- a. to contain pressures for protectionism in industrial countries such as the United States and also within the Community;
- b. to reduce the protectionism of the Newly Industrialised Countries (NICs);
- c. to encourage the opening of the Japanese market;
- d. to liberalise trade in services and agriculture, and in particular within the Community to continue to press for the liberalisation of the internal market in goods and services.

There is likely to be general agreement with these objectives but it is necessary also to be realistic about the limited gains which may be possible in third country markets (Japan and the NICs, for example, are unlikely to offer much).

The United Kingdom's own trading practices

7. If the United Kingdom were to judge that significant advantages on the lines set out in paragraph 6 above could be obtained, concessions on the United Kingdom's own remaining protective measures would be needed. The Secretary of State for Trade and Industry concludes (paragraph 14(b) of ES(84) 2) that we should not unilaterally disarm in this field nor expose, for example, our textiles industry too speedily to total free trade. He is not opposed to some concessions which should strictly match those made by others. In Annex B of ES(84) 1, the low remaining industrial tariffs, agriculture, the Multi-Fibre Arrangement (MFA), voluntary restraint arrangements (VRAs), and some residual quantitative restrictions are identified as areas in which other countries will seek concessions from the Community. However, accelerated reductions in the Community tariffs will have little impact because they are already low; there are very few quantitative restrictions (although France and Italy retain some national restrictions); and the Community is circumscribed in the initiatives it can

take on the common agricultural policy. The main areas for concessions directly affecting the United Kingdom are therefore likely to be the politically sensitive arrangements, namely the MFA and VRAs. On the MFA, there is probably not much point in detailed discussion of future Government policy until Professor Silberston's study of its costs and benefits (Annex B, paragraph 11) has been completed. The attitudes of other Community member states will also be important, and we do not yet know what these will be. The present MFA runs out in 1986 and any possible successor agreement is unlikely to be considered until next year.

8. This leaves VRAs, of which the United Kingdom is seen as one of the chief proponents. The Government will be under pressure to concede "transparency" - the notification of all VRAs to a body such as GATT. So far, the Community has refused to accept transparency except in exchange for the right to take selective safeguard action under GATT Article XIX, ie against individual countries as opposed to all GATT members who export the goods in question. The Secretary of State for Trade and Industry supports the continuation of VRAs as a flexible form of protection. In the last resort he is prepared to concede transparency without demanding a quid pro quo of selectivity. But the Chancellor of the Exchequer may argue that the United Kingdom should go further and accept the dismantling of VRAs, at least in the longer term.

How best to pursue rollback in the future, including at the OECD Ministerial meeting and the Economic Summit

9. The Secretary of State for Trade and Industry concludes (paragraph 14(d) and (e)) that major progress on rollback is unlikely to take place in advance of a new GATT round. We should therefore aim for a round which takes place on a timetable and with an agenda which suits our interests. He proposes that at the London Economic Summit we should aim for progress on the present GATT work programme so as to pave the way for a new round but avoid commitments at this stage on timing and agenda (paragraph 14(g)). There are good arguments

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in favour of supporting a new GATT round at the OECD and at the London Economic Summit, including the need to discourage United States protectionism in an election year, and the Trade and Industry Secretary's formulation seems to be right and probably negotiable. The Chancellor of the Exchequer and the Foreign and Commonwealth Secretary may argue that we should aim for an even more positive approach at the Summit, both on the GATT round and on more rollback in advance of the round. But this may not be achievable. The Economic Summit itself cannot take decisions on a GATT round, since many more countries are involved. Most members of the Community also take a fairly cautious view of the prospects for a new round, fearing that the Community would find itself under pressure to make unwelcome concessions or be unable to satisfy the developing world in sensitive areas such as textiles, in which case the NICs would refuse to reduce their own high barriers. On further rollback before a new GATT round, a commitment to completion of the work already in hand in GATT and OECD is likely to be the most that can be achieved.

HANDLING

10. The Secretary of State for Trade and Industry will introduce his paper. You may wish to lead the discussion either on the basis of the three main issues identified above ^{Paris} or, perhaps more simply, by going through the conclusions set out in paragraph 14 of ES(84) 2. The Chancellor of the Exchequer may wish to argue the case for reducing the remaining United Kingdom trade barriers; and the Foreign and Commonwealth Secretary may wish to comment on the Community aspects and on the attitudes of our main trading partners.

/CONCLUSIONS

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CONCLUSIONS

11. You may, if the Committee agrees, be able to reach the following conclusions:

(i) the United Kingdom's best interests continue to lie in combatting protectionism and we should therefore take a generally positive attitude to further rollback;

(ii) the United Kingdom should be prepared to consider some concessions in the areas of tariffs and VRAs, but only in exchange for a worthwhile contribution from others. It is too early at this stage to know whether a balanced deal is possible or to consider what precise concessions we might offer;

(iii) the United Kingdom should work for language in the communique of the London Summit which stresses the need for progress on the present GATT work programme so as to pave the way for a new multilateral negotiating round.

Cabinet Office

7 March 1984