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Foreign and Commonwealth Office

London SW1A 2AH

20 June 1986

*Time Answer
this deals
with a point
which you raised. It
seems to be going
in the right direction.*

ms

Dear Charles,

EC/US: Enlargement

Thank you for your letter of 18 June, enquiring how we intend to react to the US proposal for a levy-free quota for corn and sorghum.

*CPD
20/6*

On 16 June (Luxembourg telno 174, enclosed) we succeeded in persuading the Foreign Affairs Council to agree to the following strategy:

- any unilateral US action affecting exports to the US would be met by equivalent EC action affecting a similar value of US exports; but
- ways should be found - without compromising the EC's essential interests - to help the US not to take action. The Commission have been invited to look for solutions that would allow both sides to refrain from retaliatory measures.

In the margins of the meeting we impressed on the Commission the need to make an early positive offer to the Americans. The Commission have agreed and have told us in confidence that they will be seeking to make an effort to find a solution which would take account of the following points:

- the US at present are exporting about 2.5 million tonnes of cereals to Spain;
- US exports of corn gluten feed and cereals to the EC10 at present are running at about 7.5 million tonnes per annum;
- the US will henceforth be able to export corn gluten feed to Spain (which they have not been able to do hitherto).

On that basis the Commission will be indicating to the Americans that, if their cereals and cereals substitutes exports to the Community fell below a certain figure before the Article XXIV:6 negotiations had been brought to a conclusion, the Community would reduce accordingly the levy on US cereals exports to Spain. This is in effect a variant of the idea of a levy-free quota for corn and sorghum. We have made clear to the Commission that they must give the Americans enough hope of a negotiated outcome for the 1 July

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deadline to be deferred. They accept this. They have not revealed the detail of their offer to other member states though the others know that a serious negotiating effort is now to be made.

The key to agreement will be the threshold volume of US exports. Delors made clear in the Foreign Affairs Council that the original United States proposal of a 13 million tonnes duty free quota was unrealistic. He is quite right: this is well above the level of US exports to the Community in 1985. But we have made plain to the Commission that the threshold below which levies on US cereals exports to Spain would be reduced will have to be high enough to be attractive to the Americans. If it were possible to achieve an interim solution on these lines, the prize would be considerable, as the Article XXIV.6 negotiations on the trade effects of enlargement would come to a conclusion subsequently on a global, not a sectoral, basis. We have throughout insisted to the Americans that they cannot claim a potential loss of trade in cereals without off-setting against that the considerable benefits they will secure from reduction in Spanish and Portuguese external tariffs on manufactured goods (tariffs were reduced by 10% on 1 March 1986, and will be reduced by a further 12.5% on 1 January 1987). Article XXIV.6 of the GATT makes clear that "in providing for compensatory adjustment, due account shall be taken of the compensation already afforded by the reductions brought about in the corresponding duty of the other constituents of the union."

We have told the Americans that, at our behest, the Commission will now be making a serious negotiating effort to find an interim solution that might avoid US measures and EC counter-measures. Contacts are already taking place and De Clercq and Yeutter have arranged to meet in Washington on 29 and 30 June. At the same time, they will be making a final effort to resolve the continuing difficulties with the US over EC exports of semi-finished steel products and US trade in citrus. All this means that a serious effort will also have to be made on the American side, despite strong protectionist pressures in Congress in the run up to the mid-term elections. The Americans have welcomed our efforts and are well aware that the way in which the enlargement problem is managed will have a major impact on the prospects for a successful launch of a new GATT round.

I am copying this letter to Michael Gilbertson (Department of Trade and Industry), Ivor Llewellyn (MAFF), and David Williamson (Cabinet Office).

*Yours ever,
Colin Budd*

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Private Secretary

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