

PRIME MINISTER

*Handwritten mark*

STATEMENT ON US/STEEL

Mr. Rees made a statement this afternoon about the results of his negotiations, both with the Americans and within the Community. This made it clear that we had failed in our attempts to get a bilateral deal with the Americans, but that the Community were still seeking a more comprehensive settlement. The Opposition were mainly interested in the effects of the 40 per cent countervailing duty on BSC, and in the possibility of mitigating these effects in some way. Some argued that this case showed how incompetent the Community was at protecting its trading interests, and some hinted at the need for import controls on steel. Sir Anthony Meyer said that he hoped that the trade war with the US would not also become a trade war within Europe, and Peter Emery said that we should publish a list of retaliatory action that we might take against the USA to demonstrate our concern. Scottish MPs were particularly concerned about the combined effects of the US countervailing duty and the embargo on the Siberian pipeline.

Mr. Rees said that we would continue to complain through the EC to the GATT, and that the Americans' actions augured badly for the forthcoming GATT Ministerial meeting. The interests of the UK steel industry, both public and private sector, would be argued for in the discussions on the Commission's Mandate for negotiations with the US. The effect of the 40 per cent countervailing duty was difficult to estimate, but BSC would clearly be unable to sell in the US markets. The Corporation would either have to cut back its production or seek other markets. In general, Mr. Rees said that it was in our interests to maintain the open trading system.

*CWR*

26 July 1982





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FOREIGN AFFAIRS COUNCIL, JULY 24 1982 - STEEL

DRAFT STATEMENT FOR THE MINISTER FOR TRADE TO MAKE IN THE HOUSE OF COMMONS

1 With permission, I will make a statement about the special session of the Foreign Affairs Council of the European Communities which was held on Saturday, July 24. The purpose of the meeting was to consider the latest developments in the very serious dispute between the Communities and the United States over action taken in the United States against certain steel imports.

2 Last January the United States steel industry initiated both countervailing and anti-dumping complaints against imports of certain classes of steel from a number of sources including seven Community countries, one of which is the United Kingdom. In the countervailing cases provisional duties have been ~~enforced~~ <sup>IN FORCE</sup> since June 11. Provisional duties in the anti-dumping cases may be determined shortly. There is no assurance that further suits will not be initiated.

3 The highest rate of provisional duty, at about 40%, has been determined in the case of products exported by the British Steel Corporation. This, as I understand the position, is on the basis that sums of capital introduced into BSC by the Government over the last three years and the <sup>i</sup>w<sup>1</sup>aver of certain BSC obligations constitute an unfair subsidy to exports into the US market. This is a formulation which we find quite unacceptable.

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4 The Government's concern is to safeguard the interests of the United Kingdom steel industry both public and private in the face of these protectionist measures and to maintain the stability of the internal steel market in the Community. The Community has tried repeatedly but unsuccessfully to achieve a settlement of this dispute on the basis of some limitation of exports to the United States of selected steel products in return for withdrawal by the United States industry of all its countervailing and anti-dumping complaints. The United Kingdom has fully supported these efforts. However none of the Community's proposals <sup>SO FAR</sup> has been acceptable to the United States.

5 At its session on 19/20th the Council therefore agreed that the Member States worst affected, with the participation of the Commission as co-ordinator, should seek bilateral arrangements with the United States. Under US law action to suspend the current countervailing complaints could be taken by the US Administration only up to midnight on July 24th. After the expiry of this deadline these cases can only be withdrawn with the concurrence of the US steel industry.

6 Regrettably, last Thursday, July 22, the United States rejected the proposals put to them under this Council decision by the Ambassadors of the countries worst affected including the United Kingdom. The Administration in turn proposed an arrangement for limiting imports of seven products from these countries at an unreasonably low level. In view of the imminence of the deadline the Council met again on Saturday at the request of HMG and the French Government. It accepted eventually that discussions between the countries worst affected and the United





States should continue to see if bilateral agreements were still possible. The Government had despatched to Washington after the Council of July 19-20 a special team accompanied by representatives of the industry. Following the conclusion of the Saturday Council meeting our team immediately took all possible steps with the US Administration to negotiate a bilateral agreement for the United Kingdom alone.

7 I have to inform the House that despite every effort by our team, reinforced by a last minute approach by myself, and despite earlier indications to the contrary from <sup>it,</sup> the US Administration, ~~it~~ was not willing to conclude a bilateral agreement with the United Kingdom.

8 The decision of Saturday's Council also provides for a new initiative for the settlement of this dispute on a comprehensive basis by the Community. Such a settlement should embrace both current and future countervailing and anti-dumping suits. The precise terms of the Commission's mandate for these negotiations will be determined in the course of this week. During these negotiations we shall ensure that the interests of the United Kingdom steel industry both public and private are taken fully into account.



Fraser: Serious consequences for steel industry and world trade. US cannot make the rules on this, pipeline, and energy prices. "Vigorous action" has failed. Have we played by the rules? Did EC proposals give us a fair deal? Why no bilateral deal, especially since 40% duty is much more damaging? What hope can be given to steel industry?

Rees: Continue to complain from EC to the GATT. We have always played by the rules by price and volume. Effect difficult to estimate. BSC unable to sell over a 40% tariff. Would have to cut back or seek other markets. Cannot specify our negotiating position. Explored possibility of bilaterals. Thought EC line had more weight. If nego fail, BSC will have to consider other markets.

Fraser: EC to act as one. Hope war with States does not become war with Europe.

Jones: What financial and job losses? We ~~import~~ <sup>import</sup> 1/200 m of steel of home made fibres?

Anglemore: Support from liberal & SNP. Ironie that LP should attack import controls?

Rees: Maintain the open trading system

Thorne: EC failed to represent the UK case.

Emery: US actions unacceptable. Publish the retaliatory action available.

Rees: open trade. US want comprehensive deal with EC, but will not rule out bilaterals.

Angus badly for GATT ministerial.

Miller: ECSC steel cartel not in our interests

Rees: not to the long term interests of commerce or industry to destabilise

Fryer: Others in EC to cut their production?

: Collapse of BSC. Import controls?

Rees: 200 tons/a exports.

Clark: Unashshire: Ravenscrag.





From the  
Minister for Trade

DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144  
SWITCHBOARD 01 215 7877

W Rickett Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

26 July 1982

Dear Willie,

I attach a draft statement which the Minister for Trade proposes to make in the Commons this afternoon about Saturday's special meeting of the Council which he attended on the steel dispute with the United States. It will also be made in the House of Lords by the Secretary of State. Because of the complexity of the issues and the inaccuracy of much of the press reporting it goes into some detail about the background to this dispute and the factors which led to the calling of a special Council. The meeting has been fully reported by telegram, as have the unsuccessful discussions in Washington on Saturday by the UK team seeking to negotiate a bilateral settlement with the US of the actions against steel imports from the UK. You might however like to have some more background.

The purpose of our request for this Council meeting was to get cover from the Council for our negotiating before the 24 July deadline a bilateral arrangement on steel with the US following the failure of the Commission's attempts to work out a comprehensive settlement with the Americans of the countervailing and anti-dumping cases against Community steel producers, and also following the failure of the attempts to secure co-ordinated bilateral agreements. We had tried but failed to get the Council called for Friday so as to allow more time for negotiations in Washington before the Administration's power to suspend the countervailing cases at its own initiative ran out at midnight on Saturday.

When the Council met on Saturday afternoon the Commission tabled fresh proposals for a mandate for the Commission to seek a comprehensive settlement of the steel cases with the Americans, based on a wider product coverage than before. No prior indication of these had been given, although it had been clear to us that the Commission were firmly against our negotiating bilaterally with the US. Davignon explained that the rejection by the US of the proposals by Ambassadors of four





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member states for co-ordinated bilateral settlements had created an entirely new situation. This rendered the Council's agreement of July 20 on bilaterals out of date and demanded a fresh approach. Apart from one or two technical objections, for example from the Dutch on product coverage, the Commission's proposal was welcomed almost without discussion by most member states. In particular France, who also had a team in Washington talking about a bilateral arrangement, fully supported it. For the UK Mr Rees argued in the terms laid down by last Thursday's Cabinet decision and encountered strong opposition.

The Commission move was clearly designed to outflank the UK and it took hours of hard private bargaining, during which the French minister made constant difficulties, before the compromise formula could be agreed which provided for both acceptance of the Commission's proposed new mandate and continuance of our bilateral talks in Washington, in accordance with the terms of the Cabinet decision, for the few hours remaining before the midnight deadline.

In Washington our team of officials and industry representatives which we had despatched to Washington immediately after the Council on 19-20 July, had made good progress in working out the form of a possible bilateral agreement. The Commerce Department had however refused to discuss quantities until the Council had sanctioned these further bilateral negotiations. Immediately after the conclusion of Saturday's Council we telephoned the Council decision together with the terms of the relevant minute which gave us freedom of manouevre until the expiry of the deadline. However the Commerce Department, in spite of a further personal call by Mr Rees to Under Secretary Olmer, who was conducting the negotiations in Baldrige's absence in California, declined to conclude an agreement. Olmer gave as his main reason the wish of the Commerce Department to conclude a comprehensive settlement with the Community as a whole, and he saw Saturday's Council decision as offering new hope for such a settlement. He also claimed that a decision by the International Trade Court during last week had called in question its ability to negotiate on trade matters, in the case of Community countries, with anyone except the Commission. He doubted whether any settlement on the lines we were proposing would successfully withstand a challenge by the US industry in the Courts. Olmer indicated to Mr Rees at the end of their long and vigorous exchange that he would reflect on the situation. However shortly afterwards, after telephoning to Baldrige, he indicated to our team that he was not prepared to conclude an agreement.

The failure of this attempt to get a bilateral agreement with the US was not for want of persistence or careful preparation on the part of our team in Washington, who were supported by representatives of both BSC and the private sector. It was emphasised to our team at various times by both BSC and the private sector representatives that their interests were not identical. BSC claimed confidently throughout that the US would be ready to sign a bilateral agreement with the UK on terms substantially more favourable than had been offered in response to the Community proposal for co-ordinated bilaterals with four countries. Regrettably they were proved wrong by events.

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A representative of BSC was present in Brussels throughout the Council meeting and was kept closely in touch and consulted as discussions developed. Mr Rees also kept in regular touch with the Secretary of State for Industry during the Council and got his endorsement of the compromise formula before it was finally adopted.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, Secretary of State for Trade, Secretary of State for Industry, Lord President of the Council, Chief Whip and Sir Robert Armstrong.

Yours ever,

Nicholas McInnes

N McINNES  
Private Secretary to the  
Minister for Trade (PETER REES)

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FOREIGN AFFAIRS COUNCIL, JULY 24 1982 - STEEL

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Mr. Swains

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MR ASHPORD  
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M A F F

SIR B HAYES

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\* Last paragraph

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FM WASHINGTON 250855Z JUL 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 2547 OF 25 JULY 1982  
INFO IMMEDIATE UKREP BRUSSELS

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As requested by RC

NIPT

US/EC STEEL: COMMERCE DEPARTMENT STATEMENT

AT ABOUT 1900 HOURS (LOCAL) ON 24 JULY OLMER (UNDER SECRETARY COMMERCE) ISSUED THE FOLLOWED STATEMENT TO THE PRESS (TAKEN DOWN FROM DICTATION):  
BEGINS:



AT ABOUT 1900 HOURS (LOCAL) ON 24 JULY OLMER (UNDER SECRETARY COMMERCE) ISSUED THE FOLLOWED STATEMENT TO THE PRESS (TAKEN DOWN FROM DICTATION):

BEGINS:

VICE PRESIDENT DAVIGNON HAS INFORMED US THAT THE COUNCIL OF THE EC TODAY GAVE THE EC COMMISSION AN EXCLUSIVE MANDATE TO NEGOTIATE WITH THE USG TO SEEK A MEANS TO ALLEVIATE THE TENSIONS BETWEEN US OVER STEEL TRADE. I WHOLEHEARTEDLY WELCOME THIS DECISION. I SINCERELY BELIEVE AND HOPE THAT CONTINUED GOOD FAITH EFFORTS OF BOTH SIDES CAN RESULT IN A FAIR AND AMICABLE SETTLEMENT THAT WILL RELIEVE THE INJURY CAUSED TO THE US INDUSTRY BY SUBSIDISED STEEL IMPORTS. OVER THE PAST FEW DAYS REPRESENTATIVES OF THE EC WORKING TOGETHER WITH DEPARTMENT OF COMMERCE OFFICIALS HAVE EXPLORED THE POSSIBILITY OF SUSPENDING SOME OF THE CVD INVESTIGATIONS NOW UNDER WAY. RATHER THAN PURSUE THAT ROUTE, HOWEVER, THE EC AND THE US HAVE DECIDED TO CONTINUE OUR DISCUSSIONS ON RESOLVING THE STEEL TRADE PROBLEM BETWEEN THE US AND THE EC IN ITS ENTIRETY.

PRELIMINARY DISCUSSIONS ABOUT SUSPENSION AGREEMENTS WERE HELD WITH REPRESENTATIVES OF SEVERAL EC MEMBER STATES, PARTICULARLY THE UK AND FRANCE. SINCE IT HAS BEEN DECIDED TO PURSUE A COMPREHENSIVE SOLUTION, THOSE DISCUSSIONS WERE NOT FURTHER PURSUED. THOSE DISCUSSIONS WERE MARKED BY AN EXCELLENT SPIRIT OF COOPERATION AND GOOD WILL. WE ARE CONFIDENT THAT THE SAME SPIRIT WILL MARK THE FORTHCOMING COMPREHENSIVE DISCUSSIONS.

THE COUNCIL DECISION OFFERS HOPE OF DEALING WITH THE ENTIRE PROBLEM, AND SECRETARY BALDRIGE AND I LOOK FORWARD TO MEETING WITH VICE PRESIDENT DAVIGNON OR HIS REPRESENTATIVES TO CONTINUE OUR WORK.

RESIDENT CLERK PLEASE INFORM CROWE (ECD/E) AND DUTY OFFICERS IN DEPARTMENTS OF TRADE AND INDUSTRY.

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Mr. T. Jackson

Mr. K. Binning

\* no (last paragraph)

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DESKBY 251000Z F C O AND UKREP BRUSSELS

FM WASHINGTON 250050Z

TO IMMEDIATE F C O

TELEGRAM NUMBER 2546 OF 25 JULY

INFO IMMEDIATE UKREP BRUSSELS

EC/US STEEL

THE FINAL ACT IN THE AFFAIR AT THIS END STARTED WITH RENEWED DISCUSSIONS AT COMMERCE ON THE DRAFT AGREEMENT. THE DOC TEAM STILL HAD NO AUTHORITY TO TALK NUMBERS BUT THE REMAINDER OF THE AGREEMENT WAS ALMOST FULLY NEGOTIATED WHEN NEWS ARRIVED FROM UKREP OF THE COUNCIL DECISION.

2. HORLICK IMMEDIATELY CONTACTED THE COMMISSION OFFICE BUT HIS ENQUIRY AS TO WHETHER THE DECISION MEANT THAT THE UK WAS FREE TO NEGOTIATE NET WITH AN EVASIVE RESPONSE. FOLLOWING UP WITH MAEMEN IN BRUSSELS WE UNDERSTAND THAT HE MET WITH A CATEGORIC NEGATIVE. AFTER FURTHER PRIVATE CONSULTATION AMONG DOC OFFICIALS,



PAEMEN IN BRUSSELS WE UNDERSTAND THAT HE MET WITH A CATEGORIC NEGATIVE. AFTER FURTHER PRIVATE CONSULTATION AMONG DOC OFFICIALS, SUNDERLAND MET OLMER TO DISCUSS THE SITUATION.

3. THE CONVERSATION WAS INTERRUPTED BY MR REES'S TELEPHONE CALL FROM BRUSSELS DURING WHICH OLMER EXPLAINED TO MR REES THAT THEY HAD DECIDED NOT TO PURSUE THE SUSPENSION AGREEMENT NEGOTIATIONS, FOR FOUR REASONS:-

- (I) THE COUNCIL DECISION TO RESUME NEGOTIATIONS ON A BROAD PRODUCT BASIS OFFERED GROUND FOR REAL OPTIMISM;
- (II) A BILATERAL AGREEMENT IN THESE CIRCUMSTANCES WAS LIKELY TO PREJUDICE THE CHANCES OF COMMERCE ACHIEVING THEIR LONG-STANDING OBJECTIVE OF A DURABLE SETTLEMENT WITH THE ENTIRE COMMUNITY;
- (III) A VERDICT OF THE INTERNATIONAL TRADE COURT THIS WEEK HAD CAST DOUBT ON THE VALIDITY OF DOC'S TREATMENT OF STEEL PROBLEMS ON A MEMBER STATE RATHER THAN COMMUNITY BASIS;
- (IV) THE CHANCES OF ANY AGREEMENT SURVIVING THE 30-DAY COMMENT PERIOD WERE IN ANY CASE NOT GOOD.

4. OLMER LISTENED TO MR REES SYMPATHETICALLY, BUT THE DEPARTMENT'S POLICY WAS CLEAR AND HE WAS UNABLE TO MOVE. SUBSEQUENTLY, SUNDERLAND QUESTIONED THE WISDOM OF RELYING ON YET ANOTHER COUNCIL DECLARATION OF INTENT WITHOUT ANY QUANTIFICATION OF WHAT WAS ON OFFER WHEN WE WERE AT HAND WITH FIRM BIDS ON A WIDE RANGE OF PRODUCTS. OLMER CLAIMED THAT THE GAP BETWEEN THE EC AND THE USA WAS IN REALITY NARROW (5.9 PERCENT COMPARED WITH THE 5.67 PERCENT WHICH BALDRIDGE HAD SAID HE COULD PROBABLY SELL TO THE INDUSTRY).

5. FACED WITH THIS CLEAR DECISION, SUNDERLAND CONCENTRATED ON REMINDING OLMER OF HOW WE HAD ONCE MORE DEMONSTRATED THE SERIOUSNESS OF OUR INTENT TO CONTRIBUTE CONSTRUCTIVELY TO THE SOLUTION OF INTERNATIONAL STEEL PROBLEMS AND URGED THAT FULL RECOGNITION BE GIVEN TO THIS IN THE PREPARATION OF THE US POSITION FOR THE FORTHCOMING TALKS WITH THE EC. OLMER PROMISED TO DO SO. SUNDERLAND ALSO ASKED THAT ANY PRESS STATEMENT SHOULD ACKNOWLEDGE OUR EFFORTS. THE DOC RELEASE (TEXT IN MY IFT) DOES THIS. IT IS SATISFACTORY THAT THIS ALSO MENTIONS THE SEPARATE NEGOTIATION BY THE FRENCH.

6. SUNDERLAND WILL CIRCULATE FURTHER COMMENT ON HIS RETURN.

RESIDENT CLERK PLEASE INFO CROWE (ECD/E) AND DUTY OFFICERS IN DEPARTMENTS OF TRADE AND INDUSTRY.

WENDERSON



(D/BY 250830Z)

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Mr. Lindsay, Ecy (6)

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SIR J BULLARD *Mr. C. Pedersen*

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LOED BRIDGES

Hd/EEB

MR BARNAY

*Mr. Use*

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*Mr. Coors*

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*Mr. T. Jackson*

*Mr. C. Binns*

Ps/S&FS

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*Mr. Hill*

*Mr. Binks*

H V PEARSON

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M A P F

SIR B HAYES

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OO WASHINGTON DESKBY 242930Z

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DESKBY FCO 250830Z

DESKBY WASHINGTON 242930Z

FM UKREP BRUSSELS 242145Z JUL 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3055 OF 24 JULY 1982

INFO IMMEDIATE WASHINGTON

SPECIAL COUNCIL OF MINISTERS

EC/U S STEEL



FOLLOWING ARE COMMISSION PROPOSALS REFERRED TO IN KIFT.

1. THE COUNCIL AGREES THAT THE COMMISSION SHOULD NEGOTIATE WITH THE UNITED STATES AUTHORITIES A COMPREHENSIVE AGREEMENT TO LIMIT STEEL EXPORTS FROM THE COMMUNITY TO THE UNITED STATES ON THE BASIS THAT ALL COUNTERVAILING AND ANTI-DUMPING PROCEEDINGS WOULD BE TERMINATED. IT WOULD BE UNDERSTOOD THAT FOR THE DURATION OF THE AGREEMENT NO NEW INVESTIGATION WOULD BE INITIATED IN RESPECT OF THE PRODUCTS COVERED BY THE AGREEMENT.

2. THE AGREEMENT WOULD CONTAIN THE FOLLOWING ELEMENTS:

A) EXPORT LICENSES WOULD BE REQUIRED FOR ALL EXPORTS TO THE UNITED STATES OF STEEL PRODUCTS MANUFACTURED IN THE COMMUNITY COVERED BY THE AGREEMENT. THE LICENSES WILL BE DELIVERED BY MEMBER STATES IN CONFIRMITY WITH THE DECISION TO RESTRAIN EXPORTS TAKEN BY THE COMMUNITY UNDER ARTICLE 95 ECSC AND ARTICLE 113 EEC. THE U S GOVERNMENT SHALL REQUIRE PRESENTATION OF A COPY OF SUCH LICENSES AS A CONDITION FOR ENTRY OF EC STEEL INTO THE UNITED STATES

B) COVERAGE WOULD BE:

- HOT-ROLLED SHEET AND STRIP
- COLD-ROLLED SHEET
- PLATE
- STRUCTURALS
- WIRE RODS
- HOT-ROLLED BARS
- GALVANIZED SHEET
- TIN PLATE
- RAILS
- STAINLESS STEEL SHEET
- STAINLESS STEEL PLATE

C) FOR THOSE PRODUCTS COVERED IN THE AGREEMENT THE TOTAL SHARE OF THE U S MARKET WOULD NOT EXCEED PER CENT OF INTERNAL U S CONSUMPTION

D) THE AGREEMENT WOULD RUN FROM 1 OCTOBER 1982 TO 31 DECEMBER 1985

3. PROCEDURES

NEXT STEPS :

A) COMMUNICATION FORTHWITH BY THE PRESIDENCY AND THE COMMISSION OF THE COUNCIL CONCLUSIONS TO THE UNITED STATES AUTHORITIES



- B) ELABORATION BETWEEN THE COMMISSION AND THE 113 COMMITTEE OF THE FURTHER DETAILS NECESSARY FOR THE NEGOTIATIONS (26-27 JULY)
- C) TECHNICAL DISCUSSIONS WITH U S (28-30 JULY)
- D) EVALUATION BY COREPER (2-3 AUGUST)
- E) FINAL NEGOTIATIONS WITH U S (3-6 AUGUST)
- F) APPROVAL BY THE COUNCIL OF THE RESULTS OF THE NEGOTIATIONS AND IMPLEMENTING REGULATIONS THE FOLLOWING WEEK.

FCO ADVANCE TO:

FCO - PS/SOFS; PS/PUS; HANRAY; CROWE; KINGHEN

CAB - HANCOCK; RS LAMBERT

IDI - PS/SCF S: HANZIE BINNING, HOGG, BENDER

DOT - PS/MR REES; PS/SECRETARY; GRAY; JOHNSON; BOURKE; R WILLIAMS;  
MEADWAY

ADVANCED AS REQUESTED

ELLIOTT

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PLUS PCC

**IMMEDIATE**

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PS/VR EUBD  
~~MR L. BULLARD~~ Mr. Ewins  
LCDR BRIDGES  
MR HANRAY W. Use  
~~MR HANRAY~~  
Mr. Genderson

Mr. Linden, Cyste

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PS/Secy of State  
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PLUS OCS  
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CDA

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W. Moffy  
W. Blunder

EU TREASURY  
SIR E COUZENS  
MR ASHFORD  
W. T. E. Cost

W. Ardway  
M A P P  
SIR B HAYES

RESTRICTED  
FRAME EXTERNAL  
FRAME INDUSTRIAL  
DESKBY FCG 250830Z  
DESKBY WTCN 242330Z  
FM UKREP BRUSSELS 242144Z JUL 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 3054 OF 24 JULY  
INFO IMMEDIATE WASHINGTON

SPECIAL COUNCIL OF MINISTERS:  
EC/US STEEL

FIRST SESSION

SUMMARY

1. INCONCLUSIVE INITIAL DISCUSSION ON COMMISSION PROPOSALS FOR MANDATE TO NEGOTIATE COMPREHENSIVE SETTLEMENT. UK INSISTED ON RIGHT TO SEEK BILATERAL SOLUTION BY 24 JULY DEADLINE. REMAINDER OF DISCUSSION CONDUCTED IN RESTRICTED SESSION.



DETAIL

2. DAVIGNON (COMMISSION) RECALLED THE DECISION TAKEN BY THE COUNCIL ON 28 JULY FOR A FURTHER COMMUNITY APPROACH. THE US HAD HOWEVER NOT BEEN PREPARED TO HAVE A PROPER NEGOTIATION. THE APPROACH APPROVED BY THE COUNCIL WAS NOW CLOSED UNLESS THE EC WAS PREPARED TO INCLUDE PRODUCTS NOT COVERED BY THE COUNTERVAILING CASES. THE COMMISSION WAS FIRMLY OPPOSED TO THIS. ACCORDINGLY THEY WISHED TO SUBMIT A NEW PROPOSAL FOR A COUNCIL DECISION (TEXT IN MIFT) UNDER WHICH THE COMMISSION WOULD NEGOTIATE A COMPREHENSIVE ARRANGEMENT WITH THE AIM OF SECURING THE TERMINATION OF ALL THE CV AND ANTI-DUMPING CASES BY 6 AUGUST. THIS WOULD BE FOR 11 PRODUCTS IN ALL. THE FIRST SEVEN WERE COVERED BY THE PRESENT COMMUNITY INTERNAL ARRANGEMENTS UNDER ARTICLE 58 OF THE TREATY OF PARIS. THE OTHER FOUR (TIN PLATE, RAILS, STAINLESS STEEL SHEET AND PLATE) SHOULD BE INCLUDED IN ORDER TO ARRIVE AT A MORE FAVOURABLE OVERALL ARRANGEMENT. IN THE COMMISSION'S VIEW THE ANTI-DUMPING CASES WERE THE MAJOR THREAT BECAUSE UNLIKE THE CV CASES (WHICH COULD BE COVERED BY QUANTITATIVE ARRANGEMENTS) THEY WERE BASED ON PRICE AND IN PRESENT MARKET CONDITIONS IT WOULD BE EXTREMELY DAMAGING IF COMMUNITY INDUSTRY COULD NOT MATCH US PRICES. NO PERCENTAGE FIGURE WAS SHOWN IN PARAGRAPH 2(C) FOR OBVIOUS TACTICAL REASONS BUT IT WAS IMPORTANT TO SIGNAL THAT THE COMMUNITY WAS LOOKING FOR A SOLUTION BASED ON MARKET SHARE. UNTIL NOW THE COMMISSION HAD NOT HAD A FIRM NEGOTIATING MANDATE. A CLEAR COUNCIL DECISION TO ACCEPT THE PRESENT PROPOSAL WOULD HOWEVER SIGNAL THE END OF THE SECTION 704 APPROACH AND BRING ABOUT A CLEAR QUALITATIVE AND POLITICAL CHANGE IN THE SITUATION. IF NO AGREEMENT WAS REACHED BY 6 AUGUST THE POSITION WOULD BE VERY SERIOUS AND IT WOULD BE NECESSARY TO HOLD A FURTHER COUNCIL TO REVIEW THE OPTIONS. IN THAT CASE IT WOULD BE DIFFICULT TO RESTRICT THE IMPLICATIONS TO ONE SECTOR. FINALLY DAVIGNON EMPHASISED THAT THE COMMISSION'S PROPOSAL WAS INTENDED TO EXCLUDE BILATERAL NEGOTIATIONS BOTH BEFORE AND AFTER THE 24 JULY DEADLINE.

3. INITIAL DISCUSSION CONCENTRATED ON PRODUCT COVERAGE. SLECHT (FRG) QUESTIONED THE NEED FOR THE INCLUSION OF THE FOUR ADDITIONAL PRODUCTS EMPHASISING THAT HE COULD NOT AGREE TO THEM BEFORE CONSULTING INDUSTRY AND FURTHER



3. INITIAL DISCUSSION CONCENTRATED ON PRODUCT COVERAGE. SLECHT (FRG) QUESTIONED THE NEED FOR THE INCLUSION OF THE FOUR ADDITIONAL PRODUCTS EMPHASISING THAT HE COULD NOT AGREE TO THEM BEFORE CONSULTING INDUSTRY AND FURTHER DISCUSSION AT WORKING LEVEL. VAN DEN BROEK (NETHERLANDS) SAID THAT TIN PLATE WAS OF PARTICULAR IMPORTANCE TO A NETHERLANDS PRODUCER AND HE COULD NOT AGREE TO ITS INCLUSION. EYSKENS (BELGIUM) SUGGESTED THAT IT MIGHT BE BETTER NOT TO IDENTIFY THE SPECIFIC PRODUCTS IN THE APPROACH TO THE US, DAVIGNON ARGUED AGAINST THIS. THE ESSENTIAL POINT WAS TO MAKE IT QUITE CLEAR THAT THE EC OFFER DID NOT INCLUDE TUBES AND THIS MEANT SPECIFYING WHAT PRODUCTS WOULD BE INCLUDED. HE ALSO HOPED THAT IT WOULD BE POSSIBLE TO PERSUADE THE FEW COMPANIES INVOLVED TO AGREE. THEY WERE NOT COVERED BY THE EC'S ARTICLE 58 MEASURES BUT THEY WERE CURRENTLY SUBJECT TO US ARTICLE 301 CASES AND IT WOULD BE ADVANTAGEOUS TO CLEAR THEM UP. EVENTUALLY IT WAS AGREED THAT ANY DECISION TO BE TAKEN BY THE COUNCIL WOULD BE ON THE BASIS OF THE FIRST SEVEN PRODUCTS LEAVING IT TO THE ARTICLE 113 COMMITTEE TO CONSIDER THE POSITION OF THE OTHER FOUR.

4. DISCUSSION THEN TURNED TO MORE GENERAL ASPECTS. CHEVENEKENT (FRANCE) EMPHASISED THE URGENCY OF AGREEING A COMMON POSITION TODAY AS SOON AS POSSIBLE. THE OVERRIDING PRIORITY WAS TO GIVE THE COMMISSION A FIRM NEGOTIATING MANDATE AND DEMONSTRATE EC SOLIDARITY. IT MUST BE QUITE CLEAR THAT THE MANDATE SHOULD EXCLUDE PURSUIT OF BILATERAL AGREEMENTS. THIS WAS SUPPORTED BY GALLI (ITALY). SLECHT RECALLED HIS COMMENTS ON TUESDAY EMPHASISING GERMAN DISLIKE OF VOLUNTARY RESTRAINT ARRANGEMENTS. HOWEVER IT WAS OF GREAT POLITICAL IMPORTANCE TO MAKE A NEW APPROACH AND HE COULD THEREFORE GO ALONG WITH THE COMMISSION'S APPROACH, BUT HE FORESAW REAL DIFFICULTIES ON HOW THE OVERALL FIGURE WOULD BE BROKEN DOWN AMONG MEMBER STATES. THERE WAS NO QUESTION OF COMPELLING GERMAN INDUSTRY TO ACCEPT CUTBACKS. THUS WHILE THE FRG COULD AGREE NOT TO TAKE ADVANTAGE OF RESTRAINTS AGREED BY OTHER MEMBER STATES HE HAD TO INSIST ON MAINTAINING GERMAN TRADE AT 1977-81 LEVELS OR AT WORST THE 1979 LEVEL.

5. DAVIGNON THEN REVERTED TO THE IMPORTANCE OF REACHING A FIRM MANDATE TODAY. THE COMMISSION WAS NEITHER OPTIMISTIC OR PESSIMISTIC ABOUT THE PROSPECTS. THE ESSENTIAL POINT



5. DAVIGNON THEN REVERTED TO THE IMPORTANCE OF REACHING A FIRM MANDATE TODAY. THE COMMISSION WAS NEITHER OPTIMISTIC OR PESSIMISTIC ABOUT THE PROSPECTS. THE ESSENTIAL POINT WAS THAT THERE WAS NO ALTERNATIVE TO THE COMMISSION'S APPROACH. IT WAS NO LONGER POSSIBLE TO NEGOTIATE ARTICLE 794 SUSPENSION AGREEMENTS IN THE SPIRIT AND LETTER OF TUESDAY'S DECISION. OLESEN ATTEMPTED TO SUM UP THE DISCUSSION AT THIS POINT. THE COMMISSION MUST BE GIVEN A FIRM NEGOTIATING MANDATE TO REACH A COMPREHENSIVE SETTLEMENT. DELAY WOULD SIMPLY GIVE THE IMPRESSION OF INTERNAL DIFFERENCES. HE HOPED THEREFORE THAT THE COUNCIL COULD ENDORSE THE COMMISSION'S PROPOSALS IMMEDIATELY SUBJECT TO SETTLEMENT OF THE DETAIL IN THE 113 COMMITTEE.

6. THE MINISTER FOR TRADE SAID THAT HE FULLY UNDERSTOOD THE COMMISSION'S REASONS FOR SEEKING A MANDATE. THE UK RECOGNISED THE IMPORTANCE OF MAINTAINING EC SOLIDARITY. THE UK HAD LONG WANTED A COMPREHENSIVE SOLUTION AND REMAINED IN FAVOUR OF ONE. HOWEVER, THE COMMISSION HAD BEEN SEEKING THIS FOR SEVERAL MONTHS AS IT HAD TO BE RECOGNISED THAT THERE COULD BE NO GUARANTEE OF A QUICK AND SUCCESSFUL CONCLUSION NOW. INDEED ALL THE INDICATIONS FROM WASHINGTON SUGGESTED THE CONTRARY. IF THIS APPROACH FAILED IT WOULD HAVE SERIOUS IMPLICATIONS FOR EC/US RELATIONS AND IN THOSE CIRCUMSTANCES IT WOULD BE DIFFICULT FOR THE COUNCIL TO REACH FIRM CONCLUSIONS LATER. MEANWHILE THE POSITION WAS CHANGING DAILY SO THAT TUESDAY'S COUNCIL DECISION WAS ALREADY OVERTURNED. IN THE CIRCUMSTANCES HE WISHED TO EMPHASISE AGAIN UK CONCERN ABOUT THE IMMINENCE OF THE 24 JULY DEADLINE AND THAT THE UK MUST MAINTAIN ITS FREEDOM OF ACTION IN WASHINGTON BEFORE THEN. THE UK HAD SO FAR SHOWN COMPLETE EC SOLIDARITY BUT MUST NOW RESERVE ITS RIGHT TO SEEK A BILATERAL SOLUTION.

7. OLESEN SUGGESTED THAT THE COUNCIL SHOULD SIMPLY TAKE NOTE OF THE UK COMMENTS AND ENDORSE THE COMMISSION'S PROPOSALS. DAVIGNON ARGUED THAT IF SOLIDARITY DISINTEGRATED NOW THERE WOULD BE SEVERE CONSEQUENCES FOR THE COMMUNITY'S INTERNAL REGIME. BILATERAL AGREEMENTS WOULD ALSO UNDERMINE ANY POSSIBILITY OF REACHING COMPREHENSIVE SOLUTION. FINALLY, THE UK HAD NO AUTHORITY TO NEGOTIATE BILATERALLY. WITHOUT THIS CONCLUSION OF ANY AGREEMENT WOULD BE IMPOSSIBLE.

8. OLESEN APPEALED TO THE UK TO RECONSIDER AND ASKED



8. LOESEN APPEALED TO THE UK TO RECONSIDER AND ASKED WHETHER THERE WERE ANY FURTHER OBJECTIONS TO THE COMMISSION'S PROPOSALS. CHEVENEMENT EMPHASISED THE SERIOUSNESS OF THE POSITION. FRANCE ALSO HAD GREAT DIFFICULTIES AND UNDERSTOOD THE UK PROBLEM. THE FIRST PRIORITY HOWEVER WAS TO MAINTAIN COMMUNITY SOLIDARITY. THE COMMISSION MUST THEREFORE BE GIVEN AN OVERALL AND EXCLUSIVE NEGOTIATING MANDATE. IN THE ABSENCE OF THIS HE MUST ASK FOR THE DISCUSSION TO BE SUSPENDED.

9. SUBSEQUENT DISCUSSION IN RESTRICTED SESSION REPORTED SEPARATELY (SEE MIPT).

FCO ADVANCE TO:-

FCO - PS, PS/PUS, HANNAY, CROWE, KILCHEN

CAB - HANCOCK, HS LAMBERT

DOI - PS/SEC OF STATE, MARZIE, BINKINS, MOGG, BLUNDER

DOT - PS/MR REES, PS/SECRETARY, GRAY, JOHNSON, BOURKE,  
R WILLIAMS, MEADWAY

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MR ~~ESPINOZA~~ U. We  
Mr. Goodison

Hd WED  
ED/EC(E) (3)  
ED/NEWS D  
ED/ERD  
ED/ECY (I) (3)  
ED/MAES  
ED/ESSD  
Hd NAY

IMMEDIATE

Mr. Kinchen (ECY (E))

CABINET OFFICE

DOT

PLUS OGD5

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M A P P

SIR K COUZENS  
MR ASHFORD  
U. J. E. (cut)

SIR B HAYES

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DESKBY FCO 250830Z

DESKBY WASHINGTON 242130Z

FM UKREP BRUSSELS 242130Z JUL 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3053 OF 24 JULY 1982

INFO IMMEDIATE WASHINGTON

SPECIAL COUNCIL OF MINISTERS: EC/U S STEEL

1. A VERY DIFFICULT DISCUSSION WHICH LASTED 9 HOURS MOST OF IT IN VERY RESTRICTED SESSION, BUT LEFT THE COUNCIL IN NO DOUBT THAT THE UK WOULD TRY TO NEGOTIATE A BILATERAL SETTLEMENT.

2. THE COMMISSION PROPOSED ABANDONING THE S.704 APPROACH ALTOGETHER IN VIEW OF THE U S RESPONSE TO THE COMMUNITY'S OFFER. THEY PRESSED INSTEAD FOR A FRESH ATTEMPT TO NEGOTIATE A COMPREHENSIVE SETTLEMENT. THIS WOULD BE ON THE BASIS OF A



FORMAL MANDATE FROM THE COUNCIL PROPOSING A REDUCED COMMUNITY MARKET SHARE (TO BE DETERMINED) FOR 11 PRODUCTS. THE NEGOTIATIONS WOULD HAVE TO BE COMPLETED BY 6 AUGUST IN VIEW OF THE DEADLINE FOR THE PRELIMINARY ANTI-DUMPING DETERMINATIONS. THIS WOULD INCREASE THE POLITICAL STAKES AND CONFRONT THE U S STARKLY WITH THE CONSEQUENCES OF A FAILURE FOR TRANSATLANTIC RELATIONS. ALL OTHER MEMBER STATES WERE READY IN PRINCIPLE TO SIGN ON FOR THIS APPROACH THOUGH THE FRG AND THE NETHERLANDS WRIGGLED HARD ON THE PROPOSED PRODUCT COVERAGE. IT WAS AGREED THAT THIS WOULD BE CONSIDERED FURTHER BY THE 113 COMMITTEE. BUT THE FRENCH INSISTED THAT IT SHOULD BE AN EXCLUSIVE MANDATE IE WOULD RULE OUT SEPARATE BILATERAL NEGOTIATIONS.

3. MR REES EXPLAINED THAT, AGAINST THE BACKGROUND OF TWO FAILED ATTEMPTS TO NEGOTIATE A SETTLEMENT THROUGH THE COMMUNITY, THE UK HAD DECIDED THAT IT WAS BOUND TO TRY TO REACH A SEPARATE BILATERAL AGREEMENT BEFORE THE EXPIRY OF THE DEADLINE TONIGHT. HE WOULD TAKE CARE NOT TO UNDERMINE THE PROSPECTS FOR A SUBSEQUENT COMPREHENSIVE AGREEMENT COVERING THE COMMUNITY AS A WHOLE. BUT MORE WAS AT STAKE FOR US THAN FOR ANYONE ELSE. WE HAD BEEN LOYAL TO THE COMMUNITY AND THE COMMUNITY MUST DO ITS BEST TO HELP US.

4. AFTER INTENSIVE DISCUSSION INVOLVING MR REES, DAVIGNON, HAFFERKAMP, CHEVENEMENT AND THE PRESIDENCY AN UNDERSTANDING WAS HAMMERED OUT WHEREBY THE COMMISSION RECOGNISED THAT ATTEMPTS WOULD BE MADE TO REACH SEPARATE BILATERAL AGREEMENTS UNDER S.704 UP TO THE MIDNIGHT DEADLINE TONIGHT, BUT WOULD OF COURSE GIVE NO COMMITMENT ON THEIR ATTITUDE TO THE RESULTS.

5. HOWEVER WHEN THIS ARRANGEMENT WAS PROPOSED TO THE RESUMED COUNCIL THE FRENCH HAD SECOND THOUGHTS AND WOULD NOT GO ALONG. MR REES CONTINUED TO MAKE PLAIN THAT WHILE HE WAS PREPARED TO ACCEPT A NEW COUNCIL MANDATE, THE REALITY THAT SOME MEMBER STATES WERE CONTINUING THEIR DISCUSSION IN WASHINGTON AGAINST THE 704 DEADLINE HAD TO BE RECOGNISED. IN THE EVENT AFTER MUCH FURTHER DISCUSSION THE FOLLOWING COUNCIL CONCLUSIONS WERE AGREED: "THE COUNCIL AGREES THE EXCLUSIVE MANDATE PROPOSED BY THE COMMISSION AUTHORISING IT TO NEGOTIATE A GLOBAL STEEL ARRANGEMENT WITH THE UNITED STATES GOVERNMENT. THIS DECISION WILL BE COMMUNICATED FORTHWITH TO THE U S GOVERNMENT".

AT THE SAME TIME THE FOLLOWING ENTRY WILL BE MADE IN THE COUNCIL MINUTES WITH WHICH NINE MEMBER STATES (IE NOT FRANCE) ASSOCIATED THEMSELVES:



"THE COUNCIL TOOK NOTE THAT UP TO THE DEADLINE SPECIFIED IN SECTION 704 OF THE U S TRADE AGREEMENTS ACT 1979 AND CONSEQUENT UPON THE COUNCIL DECISION OF 20 JULY TALKS WERE IN TRAIN BETWEEN THE U S AUTHORITIES AND CERTAIN MEMBER GOVERNMENTS".

6. THE TEAM IN WASHINGTON WERE SUBSEQUENTLY INSTRUCTED AT 23.00Z TO DO THEIR BEST TO NEGOTIATE A SEPARATE BILATERAL ARRANGEMENT BEFORE THE DEADLINE.

7. MR REES SUBSEQUENTLY MADE THE FOLLOWING STATEMENT TO THE PRESS;

THE COUNCIL HAS AGREED TO A NEW MANDATE FOR THE COMMISSION TO NEGOTIATE WITH THE U S ON A COMMUNITY BASIS A COMPREHENSIVE LONG-TERM SETTLEMENT OF THE U S STEEL COUNTERVAILING (AND ANTI-DUMPING) CASES. THE DETAILS WILL OF COURSE HAVE TO BE WORKED OUT OVER THE NEXT FEW DAYS AND WILL BE SUBJECT TO AGREEMENT IN THE 113 COMMITTEE. WE SHALL OF COURSE PLAY OUR FULL PART IN THAT PROCESS IN ORDER TO SAFEGUARD THE INTERESTS OF THE UK STEEL INDUSTRY.

THE COUNCIL RECOGNISED THAT CERTAIN MEMBER STATES WHO WERE IN DISCUSSION WITH THE U S WITH A VIEW TO REACHING BILATERAL AGREEMENTS WITH THE U S UNDER THE COUNCIL'S MANDATE OF 20 JULY COULD CONTINUE TO DO SO UNTIL MIDNIGHT TONIGHT, 24 JULY, WHICH WAS THE DEADLINE FOR DISCUSSIONS WHICH MIGHT LEAD TO A BILATERAL SUSPENSION AGREEMENT UNDER SECTION 704 (E) OF THE TRADE AGREEMENTS ACT 1979.

THE COUNCIL RECOGNISED THAT MEMBER STATES IN DISCUSSION WITH THE U S AUTHORITIES UNDER THE COUNCIL MANDATE OF 20 JULY COULD CONTINUE TO DO SO UNTIL MIDNIGHT IN AN EFFORT TO REACH BILATERAL SUSPENSE AGREEMENTS UNDER THE U S TRADE ACT.

FCO ADVANCE TO: PS/SOFS, PS/POS.

FCO - BRIDGES; HANNAY; CROWE; KINCHEN ADVANCED AS REQUESTED

CAB - HANCOCK; MS LAMBERT

DDI - MANZIE; BINNING; BENDER; PS/SOFS

DDT - GRAY; R WILLIAMS; BOURKE; PS/SECRETARY

ELLIOTT



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Qz.02663

MR COLES

EC/USA STEEL

Prime Minister

To note - it may be  
necessary to consult you over  
the weekend.

A.F.C. 2 1/2.

The Prime Minister may like to know quite a lot has happened since the discussion in Cabinet yesterday and we cannot be sure what the outcome will be.

2. The Community put proposals to the Americans last evening for the suspension of the steel countervailing duty investigations affecting Belgium, France, Italy and the United Kingdom in return for a 10 per cent reduction (on 1981 levels) in exports of the products concerned. The three other member states which produce steel but were not affected by countervailing duties agreed not to increase their exports to the United States. Pipes and tubes were excluded as agreed by the Foreign Affairs Council earlier this week.

3. The Americans rejected these Community proposals outright. They said that any settlement would require a substantially bigger cutback in exports on a wider range of products - specifically including pipes and tubes.

4. The Secretary of State for Industry and the Minister for Trade met this morning and agreed that, in accordance with the Cabinet's decision, officials in Washington should immediately open discussions with the Americans to clarify the terms on which the United States Government might accept a suspension agreement with the United Kingdom on its own. These discussions are now taking place. Mr MacGregor of British Steel and Mr Webley of Tube Investments are both in Washington and fully in touch. Our negotiators have their eye on the deadline under US law of midnight tomorrow Washington time, 24 July. After then it may still be possible to reach an agreement with the United States Government but it may and probably will require the explicit approval of the United States industry.

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5. A special Council of Ministers is to be held in Brussels tomorrow afternoon to take stock of the position. Mr Rees will represent the United Kingdom. If the bilateral discussions in Washington look promising, Mr Rees's objective will be to secure the acquiescence of the Community, however reluctant, to our doing a bilateral deal with the Americans. This is essential since any deal including pipes and tubes (or other products not covered by the Treaty of Paris) requires Community endorsement under the provisions of the Treaty of Rome.

6. The chances of securing an acceptable deal with the Americans, whether as a Community or bilaterally, do not look good this evening. The Americans may try to secure an unacceptably large cut in our exports so as to create a precedent for dealing harshly with the rest of the Community later on. They have also, so far at least, taken the firm line that any agreement with the United Kingdom must be acceptable to the rest of the Community and must include pipes and tubes. It is probable that the Germans will resist Community approval for the inclusion of pipes and tubes whether in a Community deal or in a bilateral US/UK deal.

7. The Minister for Trade is in constant touch with the Secretary of State for Industry and they will jointly be in charge of the negotiations tomorrow. If Mr MacGregor should telephone the Prime Minister, I think it might be best for the call to be re-directed to the Secretary of State for Industry since events are likely to be moving quickly.

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D.H.

D J S HANCOCK

23 July 1982