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BACKGROUND

In January of this year informal representations were made through the Italian Embassy in Canberra exploring the possibility of securing a quota to import 2,000 Alfa Romeo cars into Australia in return for an undertaking by Italy to purchase some 7,000 tonnes of beef.

2. The original proposal was too vague and general for evaluation. Accordingly our Embassy in Rome was asked to obtain additional details.

3. As a result of our representations in Rome, Alfa Romeo Australia Pty Ltd has now provided specific answers to our questions.

4. The company is saying it would be prepared to purchase some 7,000 tonnes of beef and beef offals (it has specified precisely types and quantities). In return it would seek quota allocations to import Alfa Romeos additional to its normal entitlement of equivalent value to meat exported to Italy under the proposed arrangement.

5. The Alfa Romeo company and its owner the state-owned Institute for Industrial Reconstruction (IRI), which holds ownership of very significant sectors of Italian industry, would be the ultimate consumer of the meat through staff canteens. IRI would work through a traditional Italian importer who, in the normal way, has access to part of Italy's share of the GATT levy free quota. The importer normally sources his imports in Argentina and the IRI can have their

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import agent source an agreed quantity in Australia because of their influence as such a large purchaser. Price and quality specifications for the meat purchase would be subject to negotiation between the Australian supplier and Italian importer.

6. The company has envisaged this arrangement as a once only operation but in response to our question does not rule out the possibility of something beyond that.

CONSIDERATION OF THE ISSUES

7. The proposal seems worthy of exploration with the Italian authorities, including Alfa Romeo.

8. It could perhaps provide Australia with the opportunity for access to a further part of the GATT levy free beef quota. It could also lead to the development of similar proposals with other Member States of the EEC which have an interest in selling motor vehicles in Australia.

9. The Italian proposal also illustrates the flexibility which exists within each Member State to develop special arrangements relating to imports under the GATT beef quota. The Commission of the European Communities allocates the 50,000 tonnes GATT levy free quota among the nine Member States of the Community on the basis of past performance. It is then for Member States to decide how these entitlements to import levy free beef may be used. Most Member States, including Italy, are said to divide them amongst importers on the basis of past import performance. Importers then decide from whom they will purchase.

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10. The system together with the limited alternative export opportunities of Latin American beef exporters enables Community importers to play overseas suppliers off against each other. This has, for Australia, resulted in our returns on levy free beef sales being squeezed to very low levels. It is also why Australian importers are reluctant to try to obtain a share of any GATT levy free quota in Continental Europe.

11. The system operates even more to our disadvantage than in Britain since we have negligible historical export performance with Continental Member States and hence no established connections with their traditional meat importers to whom are allocated licenses to import beef.

12. Against this background the Alfa Romeo proposal could present an opportunity to enlarge our share of the GATT levy free quota by breaking into the Continental Community market for significant beef sales.

13. It does, however, raise the fundamental question of whether we would wish, as a matter of principle, to establish trade-offs of this kind with motor vehicle quotas and whether in that event the action can be confined to the EEC.

14. In a trade relations sense it could be objected that trade-offs, which can be regarded as barter arrangements, may not be in our best interests. Such arrangements are, however, difficult to avoid when the objective is to achieve

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a significant change in existing trade patterns in respect of trade between industries subject to active government regulation. It can also be objected that proceeding further with the Alfa Romeo proposal effectively places one EEC car producer in a special position by not giving the other car producers the opportunity to develop similar arrangements.

15. The question also arises as to whether the development of such arrangements would stimulate demands for motor vehicle quotas from other significant beef purchasers. The Soviet Union is a specific example of such a purchaser. While it is possible that the establishment of such arrangements could stimulate the USSR, or other significant purchasers of beef, to seek similar arrangements, it is, of course, already open to them to seek such arrangements under our present trading arrangements. If we were to receive such requests from significant beef purchasers, in whatever context, we would have to deal with them on their merits.

16. It is also relevant to consider whether Japan could press for an increase of motor vehicle quota in return for beef access. This is unlikely in view of the fact that Japan already enjoys a generous and stable share of the motor vehicle quota which at least matches the degree of access it presently affords Australia on beef.

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Conclusion

36. The foregoing suggests that the possibility of concluding an arrangement exchanging undertakings about motor vehicle imports into Australia and beef exports to Italy should be explored.

37. As it would be essential for any arrangement to place comparable obligations on both parties, discussions on this matter should be conducted with the Italian authorities with a view to establishing their willingness to be involved in such an arrangement.

38. It is recognised that any such arrangement would have implications for both the total allocation of motor vehicle quotas and the marketing of beef. It is proposed therefore that the Departments of the Special Trade Representative, Primary Industry and Industry and Commerce should report to Ministers on the feasibility of arrangements discussed with appropriate authorities.

RECOMMENDATIONS

39. I recommend that Cabinet agree that
- (i) I be authorised to explore with appropriate authorities the proposal to establish an

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arrangement linking improved access for beef to the EEC to access to motor vehicle quotas; and
(ii) following these discussions and my discussions more generally in the EEC, the Departments of the Special Trade Representative, Primary Industry and Industry and Commerce consider the feasibility of, and report to Ministers on such an arrangement.

R. V. GARLAND

CANBERRA, A.C.T.

29 March 1978

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