



Prime Minister.

Sir Michael Edwards sent you a copy of his letter of 11 February to Mr Nott in which he complained of the various handicaps which he believed had been imposed upon us in relation to that foreign competitors. This letter sets out Mr Nott's comments on Sir Michael Edwards' complaints. Are you content for Mr Nott to reply to Sir Michael 6 March 1980 as he proposes?

From the Secretary of State

Clive Whitmore Esq
10 Downing Street
Whitehall
SW1

Dear Clive

mb

Yes - will still
reply
7th
formally.

BL: TRADE BARRIERS

Play 'A' ...
In your letter of 14 February you said that the Prime Minister would like to have my Secretary of State's comments on Sir Michael Edwards' letter of 11 February. I attach a copy of the reply Mr Nott proposes to send, which reflects the outcome of interdepartmental discussions at official level.

The scope for helping BL within existing international and EC obligations is limited. At the same time, the discreet bending of rules in favour of BL can hardly be announced in a letter which is certain to become public. (You will be aware that Ray Horrocks of BL wrote in similar terms to the leaders of the trade unions representing the BL workforce, and Roy Grantham of APEX subsequently reproduced the text in a letter to the Prime Minister.) My Secretary of State recognises that Sir Michael is partly playing a political game in demonstrating to the workforce his determination to tackle on all fronts the barriers to BL's recovery. Nonetheless, Mr Nott intends to say to Sir Michael privately that publicity will not make it any easier for the UK to depart from the strict MCC rules.

The Prime Minister may find useful the following additional information.

Spain

There are two points at issue: access into Spain and the level of imports from Spain. So far as access into Spain is concerned, Spain has maintained very high tariffs and quantitative restrictions. The latter were removed last year and replaced by duty free quotas. But these duty free quotas were given only to those companies with manufacturing facilities in Spain. The UK considered this method contrary to the EC/Spain Trade Agreement and made representations to the Commission, who have now agreed to raise the matter with the Spaniards on 13 March.



From the Secretary of State

Imports of cars from Spain are Ford Fiestas, and action against them would, of course, meet opposition from the Ford motor industry in the UK.

Eastern Europe

The letter itself contains considerable detail on the East European situation. The SMMT have been looking at the possibility of an anti-dumping case for sometime, but they have not yet pursued this with any vigour. It is not clear whether this is because they are unable to get the necessary information or whether it is because they feel the investigation would be a waste of time. There is no doubt that the original pressure came from BL.

The main problem in relation to action against Eastern Europe is that the import numbers themselves are minimal and could not in themselves be regarded as causing damage to the British industry. We have no case to take to the Commission, and have no power in present circumstances to take unilateral action. But we will continue to monitor the situation, not only on the basis of actual imports but also on the basis of potential threat both in relation to production capacity and dealer networks.

Type Approval

The Department of Transport take the lead in this area. The system of individual vetting for foreign cars under the MAC system has been ruled discriminatory by the Commission and Ministers have agreed that EC manufacturers will be subject to the same system as domestic ones. If we were not to change the system we should find ourselves before the European Court - where we would certainly lose. It is worth noting that the MAC system has not in general had any effect on reducing imports.

What the French might do in relation to the BL/Honda agreement is another matter and not directly related to decisions on the MAC system. If there is evidence of malpractice on the part of the French we shall of course take it up with them.

On type approval for commercial vehicles, the Department of Transport are already working on the possibility of introducing some regulation, and proposals will be submitted to Ministers shortly.

Japan

The BL concern here seems to be rather for the future - either that the current undertaking will not hold throughout this year or that it will not be renewed for 1981. It is as yet too early to see whether

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evening with
Mr. Light.



From the Secretary of State

the current year's arrangement will hold, but the industry-to-industry arrangement is closely monitored and there would always be room for Governmental intervention later if necessary. So far as 1981 is concerned, the arrangement reached this year contains the normal provision for a meeting later in the year when the opportunity for renewal will present itself. We do have a bilateral treaty right to put formal quotas on the Japanese. But any substantial cut-back on Japan would most probably lead to more imports from Europe and the Japanese would almost certainly invoke their same rights to retaliate. The best course is therefore to uphold the inter-industry agreement.

I am sending copies of this letter to Ian Ellison (Industry), Richard Dykes (Employment) and Genie Flanagan (Transport).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

DRAFT

Sir Michael Edwardes
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Thank you for your letter of 11 February about various problems facing BL in the international trade field. As you have said, the points raised are not new to my officials, but it was helpful to see them presented together to give the overall impression of the barriers to trade, as seen by BL.

I have looked very carefully at each of your topics, and I can assure you that the Government's practice of "playing cricket" does not indicate, as you suggest, a lower priority to the health and prosperity of our industries than is shown by other European countries. On the contrary I can assure you that we are already doing everything in our power to ensure fair trading conditions for BL and for other British industries.

Your first point concerned Spain, and I can say without hesitation that BL has our complete support on this issue. It is intolerable that the Spanish import regime has enabled you to send only 300 cars to Spain while 50,000 Spanish-built cars were registered in the United Kingdom. The EC Commission shares our view that the duty free quotas on imports of motor vehicles could constitute a breach of the EC/Spain Agreement. A meeting has been arranged with the Spaniards on 13 March at which the Commission will be raising the general question of access for vehicle producers without assembly facilities in Spain. I will let you know how this matter proceeds.

As regards Eastern Europe, my officials have been in touch with the SMMT for some time about the possibility of mounting an anti-dumping case against these imports, but the necessary details have not so far been forthcoming from the SMMT. If BL wish to look at the possibility of supplying these themselves, my officials would be happy to discuss the matter with your staff. There are two routes which we can pursue if there is evidence of dumping. First the East Europeans have in the past sometimes shown themselves willing to restrain or adjust their prices when such evidence is shown to them. Secondly, we can ask the Commission to instigate anti-dumping action under the GATT. But you will be aware that the rules of GATT require evidence not only of dumped pricing but also of injury to the domestic industry. I frankly doubt whether the level of imports from these countries (with an import penetration of 2.28%) could be said under the GATT rules to constitute injury to the industry.

This leads to the more general question of the volume of imports from East European countries. A pre-condition for action would be a surge of imports causing or threatening serious injury to our industry. Action to impose quotas would require the agreement of the EEC Commission. Although some people seem unwilling to accept it, the fact of the matter is that we have no effective power to act unilaterally on the basis of present import levels and equally I am bound to say that there is no likelihood that EC agreement would be forthcoming either.

Surely it is questionable whether there is much scope for the East Europeans significantly to increase their market share. The Poles themselves have told us they doubt they could increase their exports to us because of production difficulties. The Czechs have the same problem and their imports have been static over the last couple of years. Russian cars are old-fashioned and limited to a certain sector of the market. I can understand that you want to see the dumping point resolved, but surely you do not see them as a major threat to your market.

On type approval I sympathise with what you say about the Minister's Approval Certificates (MAC), and I have spoken to Norman Fowler about it. But it became clear last year that, unless we gave manufacturers from the European Community access to the general type approval scheme, the Commission would refer the question to the European Court and that we would stand no chance of winning the case. We have promised the Commission to amend the regulations as soon as possible, and we cannot go back on that. But we do not intend to go further than we must. The MAC system procedure will however only be removed for Community imports once we have legislated to give Community manufacturers type approval on the same basis as our own. As they will then be required to submit type approval applications for our consideration, there is no question of their being given completely free access to our market.

We are of course examining our own arrangements for type approval of commercial vehicles. If you do have any specific problems with other countries' type approval schemes you will no doubt let Norman Fowler know at once so that we can endeavour to take effective action on behalf of the British industry.

On Japan, I am grateful for your remarks about the help my Department has been able to give over the years in support of the inter-industry understanding with Japan. I can assure you that I continue to attach great importance to the Japanese continuing to show restraint this year and my officials will be monitoring Japanese performance very closely in the months to come.

In conclusion therefore I should like to return to what I said at the beginning of this letter. It is my very strongly held view that we should not be thinking of finding new ways of bending rules but we should be pressing for a more vigorous application of the existing requirements governing international trade. What you are pressing me to do in respect of Spain and Eastern Europe is to ensure that other countries "play cricket" as well, and I can give you my commitment that that is the objective of the Government. Whenever we receive evidence of malpractice or unfair practices against British exports overseas we shall continue to pursue the position vigorously.

We are not prepared to remove the trade barriers that still exist faster than our main trading competitors. Indeed the MTNs were based on a measured and mutual reduction in the obstacles to open trade.

Thought I admire your determination to do everything possible to protect BL I have to bear in mind ~~the~~^{that} one-third of the GNP of the whole economy is generated by exports. Indeed BL exported last year over a quarter of a million vehicles, and any departure from the open-trading systems would be much more damaging to jobs in BL - than our present policy of accepting fairly traded imports from other countries.

I am quite sure in my own mind that no British government can contemplate the erection of trade barriers which spark off retaliation against our own exports, with enormous adverse consequences for employment throughout the United Kingdom.



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