



PRIME MINISTER

SPANISH CARS

CONFIDENTIAL

SPAIN

Prime Minister (1)

CF
1530.0-
FRI, Feb 9
Industry would
Reps. of
Yes not

Agree to a meeting, as
proposed in para 13?

mes 1/3

1 I reported to Cabinet on 17 February the outcome of our negotiations to date with the Spanish government to improve access for United Kingdom car exports to Spain. The Spanish offer was considered inadequate. I have since had discussions with Mr Ray Horrocks, the Managing Director of Austin-Rover.

2 Mr Horrocks' immediate preoccupation is clearly the prospective imports of new General Motors' "Nova" car from Spain which will be launched in the United Kingdom this summer. It will be a small car competitor in the Metro and Fiesta range.

3 GM's precise plans for its world marketing of the Nova are unknown. It has already begun in Germany, and we know they plan to start in the United Kingdom in the early summer. But we do not know in exactly what numbers. Similarly, the exact impact of Ford United Kingdom's plans for resourcing the bulk of its Fiesta imports from Spain to Cologne are unknown. The one development will tend to cancel out the other. This means that in 1983, at any rate, the combined Nova and Fiesta exports from Spain are unlikely to result in a significant increase in total United Kingdom imports of Spanish cars. Over the last three years, imports have fallen from 70,000 to 60,000 and last year to 50,000. If the figure stabilises at that level, we are unlikely to be able to claim a surge of injurious imports from Spain this year entitling us to look for Community safeguards in the form of import quotas.

4 This does not rule out considering countervailing duties to offset the element of subsidy in Spanish exports. But this could not be large enough - even pushed to the maximum - to affect GM's marketing strategy here. And it might have adverse effects in discouraging GM from further investment in the United Kingdom.

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5 Mr Horrocks has demanded a three year programme, with progressive tariff reductions within tariff quotas covering the entire Austin-Rover range including small cars. The first year is broadly in line with what we have already secured. This is because his dealer network could not cope with more. But his objective is to get tariffs reduced to 10% by Year 3, and for the full range of cars, including small cars, to be included. The total quota for which he asks would rise from 14,000 in Year 1, out of which he could sell 2,000 cars only, rising to 30,000 in Year 3, out of which he would sell 14,000. Details are given in
..... the sheet appended.

6 The following points need to be made:-

(1) The quota has to extend to the Community as a whole. This means that although the Spaniards are prepared to bend the rules in our favour, the total number of cars they would have to admit substantially exceeds the number BL would be able to sell.

(2) Even on BL's own demands they expect to be able to sell only 2,000 cars in Year 1 and 14,000 cars in Year 3.

Clearly Mr Horrocks does not regard Spain as a major market. But for Ford re-sourcing of the Fiesta, the export of Spanish cars to this country next year could be 100,000. Mr Horrocks' ultimate objective - on his own terms - of 14,000 cars in Year 3 looks pretty puny. Even this figure, I suspect, contains an element of braggadocio.

7 We do not consider Mr Horrocks' package as remotely negotiable now. The new Spanish government will not now commit itself to more than general wording beyond the first year. Nor at this stage will it make any concession on small cars. And Mr Horrocks



knows it. Indeed his real motive is almost certainly to keep the GM Nova out of the United Kingdom rather than to get BL cars into Spain.

8 Any resumed negotiations will need to be undertaken quickly in order to maintain the pressure, and avoid EC complications. Neither the Commission nor other Member States are aware of what we have already achieved, and, because of the deliberate bias of the Spanish offer towards United Kingdom exports would not welcome it but would only seek further concessions to the rest of the Community. This the Spaniards are determined to avoid.

9 We believe that we could secure some improvement on the terms presently on offer. Thus we think that the quota on the mid-range cars could be increased to 5,000 compared with the 4,000 on offer. We may also be able to reduce the tariff to around 18% for those cars (ie half the present level). We might also be able to squeeze a reduction in the tariff on the upper range - for Rovers - further to, say, 22%. Finally, we would hope to secure an understanding that the size, tariff level, and coverage of the quotas was the first not the final step in reducing tariffs in this sector prior to accession.

10 Such a package would fall short of BL's demands although I have no doubt that under pressure they would modify their position somewhat. Nevertheless, there is a real risk that they will attack a package on the lines set out above. But we must look at the realities of BL's position. Even if Mr Horrocks got what he wanted, he would not expect to be able to put more than 2,000 BL cars on the Spanish market in the first year, not least because he has to build up his dealer network. It would not be until 1986 that he would reach 14,000 cars. If his sights are set as low as this, he might hesitate before launching a full-scale attack on whatever deal we did succeed in negotiating. But I doubt whether he would give it much public support.



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11 So we have a situation in which the volume of Spanish cars imported this year is unlikely to go up, thus making it very difficult to justify emergency action; and one in which BL do not believe they can export to Spain any very substantial number of cars even if they get what they wanted. Strong feelings have been voiced in the West Midlands and by our own backbenchers. In the circumstances, we have three choices:-

- (i) To try for an improved deal along the lines of paragraph 9 and sell the result as a significant improvement on the present tariff imbalance - which it is; possibly we could couple this with the announcement of other measures such as the resourcing of the Fiesta, increased exports to Spain of components from this country, and surveillance licensing on car imports from other new or minor suppliers.
- (ii) To get tough with the Spaniards by threatening to block the accession negotiations unless we get a significantly better offer on cars - with the risks this would entail for our general relations, including Gibraltar.
- (iii) To be prepared to exert leverage by restricting imports of cars from Spain, using our 1939 Act powers and accepting the risk of challenge in the Courts. The only way to eliminate this risk is by special trade legislation which would override the European Communities Act (1972). I have suggested this course before but it has so far been opposed by colleagues.

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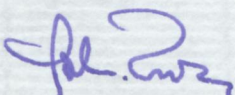
12 My own inclination would be to go for (iii) but essentially as a means of exerting sufficient pressure. But it is the sort of threat which cannot be made unless we are prepared to carry it out. There will be strong objections on constitutional grounds and on grounds of EC policy. And there is the question whether we ought to deploy our ultimate weapon in what - on BL's own showing - is not an issue of first line importance; or whether we would not be wiser to hold it in reserve against our possible need to use it in the budget negotiations.

13 I would think it valuable to have a meeting at which we could determine just what kind of deal we feel could be sold to our own backbenchers. It would be pointless negotiating better terms if what we agree was then thought to be inadequate.

14 I am copying this to Geoffrey Howe, Francis Pym, Patrick Jenkin, Norman Tebbit, Cecil Parkinson and to Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1H 0ET

1 March 1983


RP LORD COCKFIELD

[Approved by the Secretary of State and signed in his absence.]

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BL's DEMANDS

Passenger Cars

	<u>Small (Below 1275 cc)</u>			<u>Medium (1275-1600 cc)</u>			<u>Large (1993-2600 cc)</u>		
	Duty	Quota	BL	Duty	Quota	BL	Duty	Quota	BL
YEAR 1	-	-	-	20%	4,000	1,000	25%	10,000	1,000
YEAR 2	20%	5,000	2,500	15%	8,000	4,000	15%	10,000	1,000
YEAR 3	10%	10,000	5,000	10%	10,000	7,000	10%	10,000	2,000

Light Commercial Vehicles

Corresponding reductions would be sought leading to an increase in sales from the present level of 1,000 to 3,000 in Year 3.

Spain: vk. Alahim
3/60



Prime Minister

SPANISH CARS

1. I have seen Arthur Cockfield's minute of 1 March. I am commenting in Francis Pym's absence in California.
2. It was agreed in Cabinet that we should make a determined effort to get a better agreement out of the Spaniards. I think the improvements set out in paragraph 9 of Arthur Cockfield's minute provide a good basis for this.
3. We need to move quickly if we are to keep up the pressure and build on what the Spaniards have already offered, and if we are to have any chance of solving the problem before it becomes unhelpfully tangled up in other matters in the Community and in Anglo-Spanish relations. The Commission's contacts with the Spaniards are likely to be discussed again at the Foreign Affairs Council on 14/15 March, and we shall in any case want to know where we are going before the European Council a week later. All this points to a resumption of contacts with the Spaniards on cars within a very few days. I am therefore glad that we shall be meeting to consider the way ahead on 4 March.
4. The immediate task is to decide what sort of a deal we could accept. I do not think we need to decide now what action we should take in the event of failure. Alternatives (ii) and (iii) in paragraph 11 of Arthur Cockfield's minute raise important and far-reaching questions about where our real interests lie. We could do ourselves considerable damage if we pursued either of them.

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5. I am copying this minute to the recipients of Arthur Cockfield's, and - in view of his interest in possible Spanish defence contracts - to Michael Heseltine.

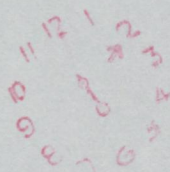
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3 March 1983

Douglas Hurd

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3 - MAR 1983





Prime Minister

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mt

Tg 01612

MR COLLS

cc Sir Robert Armstrong
Mr Hancock
Miss Lambert

Mr Sparrow
Mr Gregson
Mr Goodall

SPANISH CARS

I attach a brief for tomorrow afternoon's meeting.

gjs

GUY STAPLETON

3 March 1983

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Tg 01612A

PRIME MINISTER

Spanish Cars

References: Trade Secretary's minute of 1 March - FLAG A
 Minister of State, Foreign and Commonwealth Office, FLAG B
 minute of 3 March
 E(82)22nd Meeting - FLAG C
 E(82)24th Meeting - FLAG D
 CC(83)5th Conclusions, Minute 3 - FLAG E

BACKGROUND

1. E(82)24th Meeting agreed that pressure should be kept on the Community to seek improvements in the present unequal trade arrangements with Spain, especially over cars. The Commission have since been in desultory negotiation, but more successful parallel negotiations by the United Kingdom led the Spaniards to agree last month to a number of minor concessions, including duty quotas on cars of 4,000 mid-range cars from the Community as a whole at a tariff of 20 per cent instead of 36 per cent and 10,000 upper range cars at a reduced tariff of 25 per cent. Cabinet decided on 17 February that these were inadequate, and attempts are being made to negotiate a better deal with the Spaniards. This will need to be ready by the Foreign Affairs Council on 14-15 March, when the Commission is due to make substantive recommendations on what deal, if any, can be made with the Spaniards.

2. The Trade Secretary's minute describes an approach from the Managing Director of Austin-Rover setting out the Spanish tariff reductions he would like to see. The Trade Secretary points out that these are not likely to be negotiable and that British Leyland (BL) would be unable to export more than small quantities of cars to Spain even if the proposed tariff reductions were achieved: their real concern is with the prospective imports of Spanish-manufactured Novas, though these and Fiestas are unlikely to mean any significant increase in total United Kingdom car imports from Spain. The Trade Secretary notes the seriousness with

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which back-bench opinion views this question, and presents three options for government action: to try to sell to industry and Parliament an improved deal with the Spaniards (5000 mid-range cars at a lower tariff of around 18 per cent and a slightly smaller tariff of around 22 per cent on upper-range cars might be negotiable); or to put pressure on the Spaniards for more significant concessions either by blocking the accession negotiations or by restricting Spanish imports under the Import Export and Customs Powers (Defence) Act 1939. He prefers the last course, but recognises that the associated amendment of the European Communities Act could raise constitutional and Community policy objections and that it might limit the United Kingdom's freedom of action in the budget negotiations.

3. In his minute, the Minister of State, Foreign and Commonwealth Office, suggests that the first option provides a good basis for an acceptable deal, notes the need for a clear indication of how things are going before the March Foreign Affairs and European Councils, and draws attention to the potentially damaging implications of the second and third options.

The Main Issues

4. The main issues seem to be:
- i. Could an improved package on the lines the Trade Secretary believes to be negotiable be sold to industry and Parliament if coupled with the announcement of other measures?
 - ii. Could we obtain the deal we want by putting pressure on the Spaniards in some more drastic way?
 - iii. Would the means of pressure proposed (blocking the accession negotiations or using the 1939 Act powers) involve unacceptably high costs in other fields?


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Acceptability of package under negotiation

5. The Trade Secretary notes that the improved deal which is probably negotiable with the Spaniards will not satisfy BL demands and that there is a risk they will criticise it. Public and Parliamentary opinion may also not see the package as such as an adequate step forward. But given BL's admission that they would be unable to export more than very small quantities of cars to Spain even with the full tariff reductions they seek, their criticism may be muted. It may also be possible to dress up the package by announcing various other measures at the same time, as suggested in paragraph 11(i) of the Trade Secretary's minute. In addition, it could be presented as a first step only, with an announcement of the Government's intention to continue the pressure on Spain for further improvements. The Meeting may feel that such an approach would not exclude subsequent recourse to one of the Trade Secretary's other two options.


Possibility of negotiating a more acceptable package by putting pressure on the Spaniards

6. The Trade Secretary has suggested (his paragraph 11(ii) and (iii)) two options for putting pressure on the Spaniards to do a better deal:

- a. Blocking the accession negotiations
- b. Using the 1939 Act powers to restrict car imports from Spain

Both would be a striking demonstration of the Government's determination to obtain real improvements in the terms of Anglo-Spanish trade in cars. It is doubtful, however, how effective the first would be as a means of pressure on the Spaniards in the short term when the accession negotiations are already virtually blocked by France. The second might be more effective at bringing the Spaniards to offer more substantial concessions, and would also have the advantage, for the duration of the measures, of restricting Nova imports. But even if they were brought to agree to tariff reductions along the lines proposed by BL, Nova

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imports would then have to be admitted again. By the second half of the year, these could be a significant new competitor, even if they are unlikely to represent an absolute increase in Spanish car imports over previous years. As the Trade Secretary points out, the possibilities of significantly restricting Nova imports by other means seem limited, but this is something which the Meeting may feel it worth asking officials to explore (the Transport Secretary has already done some work on the use of type approval to slow car imports, in response to E Committee's remit on 16 December).

Possibility of Spanish retaliation

7. The Minister of State, Foreign and Commonwealth Office, who will be representing the Foreign and Commonwealth Secretary, will no doubt comment that these options involve a substantial risk of retaliation by Spain. The most obvious area for retaliation is Gibraltar. Both sides have agreed to aim for the implementation of the Lisbon Agreement this spring, and the Spanish Foreign Minister is visiting London on 16 March to discuss how to carry matters forward. Progress would obviously be jeopardised by a major trade dispute. Other trade with Spain (with whom our trade is currently roughly in balance at about £1 billion each way) could also be affected; in particular, the Ministry of Defence have hopes of a £130 million Rapier contract which would be endangered.

Community complications

8. Blocking the accession negotiations might be seen by our EC partners as an over-reaction, but given their virtual blockage by France such action might not cause us too much trouble in the Community context in the short term. Use of the 1939 Act would be very much more difficult, because of the need, as the Trade Secretary points out, to amend the 1972 European Communities Act to avoid the risk of immediate challenge in the European and United Kingdom courts. E(82)22nd Meeting ruled out a proposal for similar unilateral action (a Trade Reciprocity Act) involving an amendment of the European Communities Act on the grounds that it would be highly controversial and a breach of the EC Treaty, that the



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United Kingdom would undoubtedly be defeated in the European Court and that there would be a strong possibility of cases being brought against the Government in the UK Courts. It was also noted that it would be fundamentally subversive of our membership of the Community and could undermine the possibility of dealing effectively with abuses within the Community framework. The Meeting may feel that these considerations apply to the action now proposed. As the Trade Secretary points out, since we may need to set aside part of the European Communities Act to permit withholding part of our contribution to the Community Budget, there is also the question of whether we should deploy what in Community terms is our ultimate weapon in the present cause. The Meeting may in any case consider that the Law Officers should be consulted before any decision along these lines were taken.

HANDLING

9. You will wish to ask the Trade Secretary to introduce the subject. The Minister of State, FCO (Mr Hurd) will wish to comment on the implications for relations with Spain in other fields and on the Community aspects. The Industry Secretary can be asked to comment on the extent of the threat caused by Nova imports and on likely British Leyland reactions.

CONCLUSIONS

10. You will wish the Meeting to reach conclusions on the following:

- (i) Whether the Government should
 - a. adopt the Trade Secretary's first option and try to negotiate an improved deal, presenting this in the best possible light to industry and Parliament, and leaving the possibility of further action for a later stage;
 - or b. bring one of the Trade Secretary's other options into play as soon as it is clear that the Spaniards will not agree to more than minor improvements.

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- (ii) In the case of (i)(b) how best to minimise any adverse impact on other political and commercial matters under discussion with Spain, and whether the European Communities Act 1972 could be left unamended and the risk of challenge in the courts accepted.
- (iii) Whether officials should be instructed to explore other ways in which Nova imports could be restricted.

GUY STAPLETON

3 March 1983