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10 DOWNING STREET

From the Private Secretary

4 March 1983

Dear John,

SPANISH CARS

The Prime Minister held a meeting today to discuss the minutes of 1 March from the Secretary of State for Trade and 3 March from the Minister of State, Foreign and Commonwealth Office, about Anglo-Spanish trade in cars. The Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for Trade, the Minister of State, Foreign and Commonwealth Office, the Minister of State, Department of Industry and Mr. R.W. Gray (Department of Trade) were present.

The Prime Minister said it was agreed that the United Kingdom should accept the best terms for improved access for United Kingdom car exports to Spain which could be negotiated. The alternative options for putting pressure on the Spaniards by blocking the accession negotiations or unilaterally restricting Spanish imports should not be pursued. The Prime Minister said that important considerations in this decision were British Leyland's inability to export up to the enlarged quota they were seeking, the fact that other trade with Spain had shown some improvement and was currently roughly in balance, and the risk of adverse repercussions on other matters if the United Kingdom sought to put undue pressure on the Spaniards.

In discussion of the ways in which the current Spanish offer could be improved, it was noted that Spain were aware that the United Kingdom found their present proposals inadequate and would be seeking improvements. It was suggested that, while Spain had designed their proposals to favour British Leyland as against French and German manufacturers, it would be helpful if a duty quota on small cars could be obtained in order to facilitate exports of the British Leyland Metro car. It was pointed out, however, that in the previous negotiations Spain had been adamant that they were not prepared to offer anything below the mid-range cars, and that in 1982 British Leyland had sold 750 Metros in Spain in spite of the tariff, in addition to 1,000 light commercial vehicles; the company also assembled Landrovers in Spain and Portugal. The Secretary of State for Trade said that there were four possible improvements which might be negotiable:

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- (a) an increase in the quota for mid range cars from 4,000 to 5,000;
- (b) a further reduction in the tariff on these cars to 18 per cent. This would be particularly important since it would enable us to claim that we had succeeded in reducing the tariff by half;
- (c) a further reduction, though probably of only a few percentage points, in the duty on upper range cars;
- (d) a formula which would preserve the United Kingdom's right to seek further improvements.

It would be important that concessions obtained from Spain should last for at least three years in order to justify the establishment of dealer networks in Spain by United Kingdom exporters. It was agreed that an unqualified assurance to this effect could not be expected, and that while the United Kingdom should seek to obtain improvements along the lines the Secretary of State for Trade had indicated, our negotiators could not be tied down.

In discussion of the way in which such an improved deal could be sold to domestic opinion, it was recognised that it was unlikely to be welcomed by the car industry in the West Midlands and that it was therefore important that it should be presented in a single package together with the announcement of other improvements in our trade relations with Spain. The Secretary of State for Trade said that there were a number of measures of this kind which could be incorporated in such a package, including the introduction of VAT in Spain in the course of 1984, the re-sourcing of the Fiesta, and the dramatic increase in this country's exports to Spain of components. It was noted that the presentation of the package would be considerably improved if the support of the component manufacturers could be obtained. It would also be helpful if the United Kingdom could be seen to be seeking to improve the terms of our trade with Spain in such other sectors as machine tools. Action could also be taken with the automobile manufacturers themselves, both to impress on the major American multi-nationals how reasonable Britain's attitude had been, and to encourage United Kingdom manufacturers to improve their exports, particularly of the larger goods vehicles for which there were big market opportunities.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Minister of State, Foreign and Commonwealth Office, the Minister of State, Department of Industry, and Sir Robert Armstrong.

Yours sincerely,

Michael Scholm

John Rhodes, Esq.,
Department of Trade.

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MR COLES

cc Sir Robert Armstrong
Mr Hancock
Miss Lambert

Mr Sparrow
Mr Gregson
Mr Goodall

SPANISH CARS

... I attach a draft letter to record this afternoon's meeting.

GUY STAPLETON

4 March 1983

Cabinet Office

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DRAFT LETTER TO THE PRIVATE SECRETARY TO THE SECRETARY OF STATE FOR TRADE

Copies to Private Secretaries to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Minister of State, Foreign and Commonwealth Office, the Minister of State, Department of Industry, and Sir Robert Armstrong.

SPANISH CARS

The Prime Minister held a meeting on Friday 4 March to discuss the minutes of 1 March from the Secretary of State for Trade and 3 March from the Minister of State, Foreign and Commonwealth Office, about Anglo-Spanish trade in cars. The Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for Trade, the Minister of State, Foreign and Commonwealth Office, the Minister of State, Department of Industry, ^{and} Mr R W Gray ^(Department of Trade) and Mr Butler were present.

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2. The meeting agreed that the United Kingdom should accept the best terms for improved access for United Kingdom car exports to Spain which could be negotiated. ~~The Prime Minister said that~~ important considerations in this decision were British Leyland's inability to export up to the enlarged quota they were seeking, the fact that other trade with Spain had shewn some improvement and was currently roughly in balance, and the risk of adverse repercussions on other matters if the United Kingdom sought to put undue pressure on the Spaniards.

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... (X on p3)

3. In discussion of the ways in which the current Spanish offer could be improved, it was noted that Spain were aware that the United Kingdom found their present proposals inadequate and would be seeking improvements. It was suggested that, while Spain had designed their proposals to favour British Leyland as against French and German manufacturers, it would be helpful if a duty quota on small cars could be obtained in order to facilitate exports of the British Leyland Metro car. It was pointed out, however, that in the previous negotiations Spain had been adamant that they were not prepared to offer anything below the mid range cars, and that in 1982 British Leyland had sold 750 Metros in Spain in spite of the tariff, in addition to 1,000 light commercial vehicles; the company also assembled Landrovers in Spain and Portugal. The Secretary of State for Trade said that there were four possible improvements which he felt

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might be negotiable:

- a. an increase in the quota for mid range cars from 4,000 to 5,000;
- b. a further reduction in the tariff on these cars to 18 per cent. This would be particularly important since it would enable us to claim that we had succeeded in reducing the tariff by half;
- c. a further reduction, though probably of only a few percentage points, in the duty on upper range cars;
- d. a formula which would preserve the United Kingdom's right to seek further improvements.

~~It was~~ pointed out that it would be important that concessions obtained from Spain should last for at least three years in order to justify the establishment of dealer networks in Spain by United Kingdom exporters. It was agreed that an unqualified assurance to this effect could not be expected, and that while the United Kingdom should seek to obtain improvements along the lines the Secretary of State for Trade had indicated, our negotiators could not be tied down.

4. In discussion of the way in which such an improved deal could be sold to domestic opinion, it was recognised that it was unlikely to be welcomed by the car industry in the West Midlands and that it was therefore important that it should be presented in a single package together with the announcement of other improvements in our trade relations with Spain. The Secretary of State for Trade said that there were a number of measures of this kind which could be incorporated in such a package, including the introduction of VAT in Spain in the course of 1984, the re-sourcing of the Fiesta, and the dramatic increase in this country's exports to Spain of components. It was noted that the presentation of the package would be considerably improved if the support of the component manufacturers could be obtained. It would also be helpful if the United Kingdom could be seen to be seeking to improve the terms of our trade with Spain in such other sectors as machine tools. Action could also be taken with the automobile manufacturers themselves, both to impress on the major American multi-nationals how reasonable ~~this~~ Britain's ~~country's~~ attitude had been, and to encourage United Kingdom manufacturers to improve their exports, particularly of the larger goods vehicles for which there were big market opportunities.

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X 5. It was agreed that the alternative options for putting pressure on the Spaniards by blocking the accession negotiations or unilaterally restricting Spanish imports should not be pursued. It was suggested however that sooner or later the United Kingdom would need trade legislation to strengthen our hands in such disputes. The Prime Minister said that the present issue was not of sufficient importance to warrant either impeding Spanish admission to the Community or ^{introducing} legislation which would breach the EC Treaty.

6. I am sending copies of the letter to [as above].