



This will be considered, together with other papers, at 'E' next week.

A.F.C. 27/10.

*mf*

PM/82/86

PRIME MINISTER

Enlargement of the Community and EC/Spain 1970 Agreement

1. We had a first discussion in Cabinet last week of the handicaps imposed on British industry by the restrictive trade practices of other countries, and agreed to discuss what needed to be done about it in 'E' Committee next week. We spoke in particular about the conspicuously unfair arrangements under which Spanish cars enter Britain, which have lately been attracting criticism in this country.
2. I had already been giving some thought to the present state of the enlargement negotiations, and in particular to the implications for British industry of the lengthening delays in them; and to what action is open to us in the Community to redress the situation.
3. The root of the problem is the 1970 EC/Spain Trade Agreement. This allows much higher tariffs on imports by Spain from the Community than on Community imports from Spain. Protected by this imbalance, certain sectors of Spanish industry are now highly competitive with sensitive sectors of British industry, in particular cars and components, while British and other Community exporters are faced by a range of barriers, a number not sanctioned by the Agreement. Repeated efforts to renegotiate the Agreement have failed, because the French and Italians are not prepared to make the agricultural concessions which the Spaniards insist on. Our position has been that we should

/work for





work for early accession by Spain, not only to consolidate the hold of Spanish democracy but also to dispose finally of the unequal and damaging 1970 EC/Spain Trade Agreement by securing early Spanish adoption of the Common Commercial Tariff.

4. These arguments still hold good. But with the delays in the accession negotiations which could postpone enlargement by years, we need to take a fresh look both at what we need from the post-accession transitional arrangements so as to eliminate very rapidly the unfair advantages Spain now has; and also at the increasingly prolonged pre-accession period. The following recommendations for action in the Community have been agreed in interdepartmental discussion at official level.

5. (a) Post-Accession: we should continue to work for the earliest possible accession by Spain with a short transitional period. The Community has already formally proposed that there should be a 3-year transitional period under the Customs Union Chapter, compared to the Spanish request for a 10-year transitional period. The position of both sides is so far seen as tactical. Even if we have to accept a longer transitional period (the UK, Denmark and Ireland had five years) we should press for a Community position based on a very short transitional period for any industrial product in which statistics demonstrate that Spain is already strongly competitive. This would be combined with a ceiling on the differences between the Spanish and Community basic duties on any product. Officials ~~will be circulating~~ <sup>propose to circulate</sup> the detailed proposals in Annex A among our partners for the next round of discussions to ensure that any Community offer of a transitional period longer than 3 years incorporates our proposals.

/(b) Pre-Accession:





(b) Pre-Accession: we should lobby our partners and the Commission on the unfair advantage Spain draws from the 1970 EC/Spain Agreement both by taking advantage of the high level of protection it affords in sectors where Spain has become competitive and by Spanish failures to implement it properly. We have already started this lobbying on the basis of an inter-Departmentally agreed factual paper. We should follow this up very soon with a request to the Commission to make an urgent report on the action it proposes could be taken under the terms of the 1970 Agreement, with particular reference to anti-dumping, countervailing and safeguard measures (text at Annex B).

6. There are, however, some points which we should keep in mind. Any measures likely to be suggested would be very unwelcome in Spain. Our partners in the Community would be quick to make clear whence the pressure for them comes. There would be bound to be some fall-out in our bilateral relations (with implications for Gibraltar and, more immediately, the negotiations for £130m Rapier sales, which at present stand a reasonable chance of success). And in considering the timing of any action, we should have to try to avoid the appearance of a calculated snub to a new Spanish Government (the elections are on 28 October).

7. I am copying this minute to other members of 'E' Committee and to Sir Robert Armstrong.

  
(FRANCIS PYM)

Foreign and Commonwealth Office  
22 October 1982



SPAIN: CUSTOMS UNION AND EXTERNAL RELATIONS:  
TARIFF TRANSITION

1. Although many detailed aspects of the Customs Union Chapter of the negotiations with Spain (have now been) settled at the meeting of the Negotiating Conference on 25 October, the tariff transition arrangements have still to be determined. As the Prime Minister stated in her letter of 5 August 1982 to President Thorn the United Kingdom continues to set store by the expectation that the accession of Spain will be followed, after only a short transition period, by the termination of the imbalance in trading conditions inherent in the Community's 1970 Trade Agreement with that country.

2. The Spanish delegation has requested a tariff transition period 'as close as possible to the 10-year limit without exceeding that limit' (a). The Community delegation has proposed a period of three years (b). COREPER has held some discussion (on 10 June 1982) of

---

(a) CONF-E/14/82, page 24 and CONF-E/39/82, page 4

(b) CONF-E/50/82, page 3

(c) T/TAS/106, page 9



CONFIDENTIAL

conditions on which a period longer than three years might be acceptable. The United Kingdom has stated that in its view such conditions must include ecrement of the Spanish tariff. The Commission had proposed a horizontal ecrement such that no Spanish basic duty would exceed 28% (c). The United Kingdom considers that that would be a wholly inadequate measure of ecrement.

3. There are many important items in which, thanks in large part to the 1970 Agreement, Spanish exports are already strongly competitive internationally. Thus Spain exports successfully more than half her production of ships and cars, about half her output of car components, over a third of her iron and steel production and a significant proportion of her textile, clothing and footwear output. Community countries, meanwhile, have been contracting these and other sectors at considerable economic and social cost. There can be no justification for a further long tariff transition period for such items.

4. The United Kingdom would consider the following provisions appropriate for a general tariff transition period of more than three years:

(a) a short period must be retained for selected items. Annex G to the Stockholm Convention

CONFIDENTIAL



CONFIDENTIAL

provided that Portugal would reduce her tariff against her EFTA partners faster for items of which she had exporting 15% of her production. In view of the relatively far weaker situation of Portugal the Community should certainly accept, if anything, more stringent a criterion vis-a-vis Spain in the current negotiations; and

(b) the flow of trade between the Community and Spain depends not only on the absolute height of the Spanish tariff but on the difference between corresponding Spanish and Community duties. This difference is in many cases unacceptably high. Accordingly the United Kingdom favours applying a surcharge to the Spanish tariff differentially: for no item should the difference between the Spanish and Community basic duties exceed a set number of percentage points. The present difference was accepted in the 1970 Agreement only because it was confidently expected to be a transitional regime.

5. The same principles should be applied in the External Relations Chapter of the negotiations to the alignment of the Spanish tariff on the common customs tariff.

CONFIDENTIAL



## SPAIN: COMMUNITY ACTION UNDER THE 1970 AGREEMENT

1. The United Kingdom has had repeated occasion (most recently in COREPER on 21 October) to draw attention to Spanish breaches of the 1970 Agreement between Spain and the EEC. Repeated representations over many years, by the Commission and by Member States, have not prevented the continuance of arbitrary administration of Spanish quotas and discrimination in the taxation system and commercial legislation. The Agreement has afforded much greater advantage to Spain than to the Community; the Community cannot afford to take lightly infringements by a partner who now aspires to share with the existing Member States the mutual obligations of the Community Treaties themselves.

2. In order that European business circles may be satisfied that an adequate solution to this problem is to be found at the Community level, the United Kingdom requests the Commission to make an urgent report on the action it proposes could be taken under the terms of the 1970 Agreement. This report should make particular reference to Articles 9(1) (anti-dumping), 9(2) (countervailing) and 11(2) (safeguard measures). It should have particular regard to the difficulties caused for Community industries already under heavy

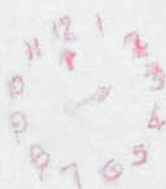
CONFIDENTIAL

strain (such as the vehicle and associated industries in the UK) by imports from factories that owe their location in Spain to the 1970 Agreement and are required by Spanish legislation to export the bulk of their production while enjoying heavy protection in the Spanish market itself.

CONFIDENTIAL



2 OCT 1982







Foreign and Commonwealth Office

London SW1A 2AH

22 October 1982

*Handwritten initials and date:*  
10/22/82  
h.a.

*Handwritten:*  
Dear Sir,

Enlargement of the Community and EC/Spain 1970 Agreement

I should be grateful if you would make the following minor amendment to Mr Pym's minute of 22 October on the above subject.

Paragraph 5(a), last sentence, should begin: 'Officials would propose to circulate the detailed proposals'....

I am copying this letter to the Private Secretaries to all members of 'E' Committee and to Sir Robert Armstrong.

*Handwritten signature:*  
R B Bone

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street



1982

10 11 12  
9 8 7  
6 5 4

