



Prime Minister

To note.

From the Secretary of State

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15 December 1982

New John

TRADE WITH SPAIN

I understand that on the 'plane to the European Council in Copenhagen the Prime Minister expressed interest in the separate elements of our problems with Spain and the initiatives which we have taken.

Briefly, there are three matters:-

- i Breaches in Spain's implementation of the 1970 Agreement;
- ii Tariff disparities where Spain is within her treaty rights but which are the heart of our grievance;
- iii Tariff transition arrangements post-accession given those disparities.

.... We have been following up all these points both in Brussels and Community capitals. Notes (attached at Annexes A and B) were circulated by Sir Michael Butler in Brussels on 18 November; a more detailed dossier of our complaints on Spanish breaches has been handed to the Commission; and following strong statements in the Foreign Affairs Council's meetings in November and on 13 December, it has been agreed that the Commission should hold discussions with the Spanish government on the first two points and report back to the January meeting of the Council. The question of the Community's negotiating position on the third point is less immediate.

Implementation of the 1970 Agreement

The dossier of the United Kingdom's complaints focuses on:-

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a Fiscal measures

We believe that although there have been improvements, Spain's tax regime discriminates against imports and subsidises exports. Because it is based on the system of a cascade tax, conclusive proof is particularly difficult to come by. We are asking the Commission to take up the position on specific products where there seems to be prima facie evidence.

b Administration of quotas

Many quotas are opened late, or not announced at all; the period allowed for licence applications is often inadequate; the allocation of licences tends to favour existing suppliers and discriminate against newcomers; where imports are freely allowed despite the existence of quotas there is no guarantee that similar freedom will be allowed in subsequent years. All this creates uncertainty for firms wishing to sell in Spain and has prevented a number of United Kingdom companies from getting into the market.

c Disruptive imports from Spain - particularly in sensitive sectors such as steel and textiles where other Member States share our concern about the continued expansion of Spanish productive capacity and of Spanish exports and where Spain's observance of agreed restraint arrangements has been unreliable.

It was agreed at the December Council that the Commission would take these matters up with Spain and we believe that other Member countries will be adding to the Commission's dossier.

Tariff Disparities

At the time when the 1970 Agreement was concluded, Spain's protective tariff for manufactures was many times that of the Community's external tariff. Despite this, in recognition of Spain's relatively unsophisticated economy at that time, the Community agreed initially to make very much deeper cuts to accord preferential access to Spain than those extracted in return. The intended re-negotiation never took place because the Community was unwilling to offer reduction in its protection of agriculture, demanded by Spain as counterpart, in advance of Spain's accession to the Community. Originally it had been expected that the negotiations would take place in the second half of the 1970s. Twelve years later, those disparities remain and have now become anachronistic with the impressive and

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competitive expansion of some of the industries concerned, particularly cars. The Commission acknowledge this and following the Prime Minister's exchanges with Commissioner Davignon went so far in their statement to the December Council as to indicate their readiness to see what could be done in the car sector. But they made it clear they would rather tackle the car manufacturers or receive an application for safeguard action than try to do anything about the tariff disparities, either generally or in particular. They argue that changes in the tariffs would involve re-negotiation of the Agreement. Lobbying in other Member States before the Council (and their attitude at the Council itself) showed little interest in immediate action on tariffs. This is partly because of the link with the accession negotiations and agriculture concessions, and partly because it would work against the interest of their firms with manufacturing operations in Spain. Nonetheless, under strong pressure from the Minister for Trade, who was at the Council, the Commission undertook to couple their discussions on breaches of the 1970 Agreement with representations about the difficulties created by the tariff disparities.

Quite separately, the Department of Trade has two other initiatives in train. First, my Secretary of State has put the political position clearly to the United Kingdom management of Ford and General Motors and urged upon them their interest in urging the Spanish government to take unilateral action to reduce their automotive tariff and particularly to maximise their own output in the United Kingdom (including component offtake). The response has been cautious but not unsympathetic. Second, my Secretary of State will propose at E Committee that we should respond positively to a proposal by the Spanish Foreign Secretary to Mr Pym and separately to Mr Rees that senior officials should visit Madrid for urgent talks about the car problem.

The alternative route of getting Community support for action to restrict imports from Spain is not promising. Other Community markets take as many or more car imports from Spain than we do; other Community producers are more competitive than BL in the Spanish market; and some already produce there (Renault and Peugeot both have major plants in Spain and Volkswagen have close links with SEAT). Ford are about to switch imports of Fiestas from Valencia to Cologne so until GM's Corsa is launched in mid-summer, there may be a significant fall in the number of cars exported to this country from Spain. But, of course, the switch does not really help us.

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Tariff Arrangements Post-Accession

The basis of our proposal in Annex B is that an extension of the three year transition period already formally proposed by the Community should be subject to:-

- a a shorter transition period for products where Spain is already strongly competitive;
- b A ceiling on the level of Spanish-based duties at the start of the action period designed to tackle some of the more startling tariff disparities.

The French and Italians support this approach; other Member States are either non-committal or have pointed to the link with transition arrangements in other fields such as agriculture and movement of labour. The Commission have undertaken to take account of our views in preparing their mandate though they see little point in trying to make further progress on this until the picture on agriculture is clearer. As we have emphasised, this makes it all the more urgent to take action on the 1970 Agreement and the tariff disparities.

Yours sincerely,

JOHN RHODES
Private Secretary

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ANNEX A

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

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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.

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ANNEX B

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

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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 a reduction of the Spanish tariff. The Commission had proposed a horizontal reduction such that no Spanish basic duty would exceed 28% (c). The United Kingdom considers that that would be a wholly inadequate measure of reduction.

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

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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 reduction 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.

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10 DOWNING STREET

From the Private Secretary

21 December 1982

Trade with Spain

The Prime Minister was grateful for your letter of 15 December describing in detail our current trading problems with Spain and the initiatives which we have taken.

A. J. COLES

John Rhodes Esq
Department of Trade.

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